PLAYBOY

30th Anniversary Annual Report 1984

Playboy Enterprises Today

Playboy Enterprises, Inc. is a media and marketing comp produces video programming for the pay-television tech product and magazine licensing, direct marketing and a

Playboy's Publishing Division, led by flagship PLAYBOY magazine, posted an earnings gain of 175 percent over the previous year.

PLAYBOY magazine, after 30 years still the world's best-selling magazine for men, continued to be the company's largest revenue and profit source. Its profit contribution in 1984 was nearly double the previous year. PLAYBOY guarantees a 4.1 million circulation rate base, which was greatly exceeded by the December issue featuring Joan Collins, which sold approximately five million copies. Circulation stability and successful cost controls helped offset a 10-percent decline in advertising pages for the year.

International Publishing increased its profit contribution by 8.3 percent in the fiscal year. With nine licensed foreign editions, more than 1,700,000 foreign-language copies of PLAYBOY are sold every month. During the year, our oldest foreign edition, PLAYBOY Germany, established a new circulation record, and our newest, PLAYBOY Netherlands, became the best-selling general circulation monthly magazine there.

Newsstand specials and Playboy calendars showed significant sales and profit growth in fiscal 1984. The newsstand specials are now produced on a bimonthly schedule.

GAMES, one of the first-ever interactive magazines, continued to demonstrate circulation strength, selling 650,000 copies per month as it moved closer to profitability. Advertising revenues were down nine percent, due in part to the dramatic downturn in the video game industry, which in prior years had been a major source of advertising revenue.

The Video Division achieved profitability in each of the third and fourth quarters of this year, which is unusual for such a young operation in a highly competitive industry. While we hope that improved distribution and programming efforts will keep the division profitable in the future, it posted a modest loss for the year.

The Playboy Channel continued to grow, with nearly 720,000 subscribers on more than 450 cable systems receiving the service at year-end—a 44-percent increase in subscribing households during the fiscal year. Playboy Channel programming is also made available to more than 350,000 additional viewers through licensing arrangements with other forms of pay-television distribution such as subscription television (STV) and satellite master antenna television systems (SMATV).

Home video sales continued at impressive levels during the year. Since distribution began in November 1982, total sales of Playboy

Publishing

Video

any that publishes consumer magazines (PLAYBOY and GAMES), nologies, and merchandises the Playboy name and trademarks through worldwide chain of Playboy Clubs.

cassettes and discs have exceeded 250,000 units. Each of the first four *Playboy Video Magazine* shows achieved "gold" sales status, as did a special *Playmate Review* home video release. In addition, the first *Playboy Video Magazine* was certified "platinum" during the year.

The Club Division reported a loss for the year.

To improve results in future years, the company enlisted the assistance of an outside restaurant management firm and continued to pursue its in-hotel franchise development strategy. The company retained Lettuce Entertain You Enterprises, a Chicago-based firm that owns and operates restaurants and nightclubs, to improve its owned-and-operated clubs in Los Angeles and Chicago. In addition, Lettuce Entertain You is now managing the development of the new concept New York City Playboy Club, which is scheduled to open in early calendar 1985.

The strategy of developing in-hotel franchise operations continues to show promise. An in-hotel franchised Playboy Club was opened in Omaha under an agreement with a hotel management firm, and our Miami Club, now franchised, was relocated to a site adjacent to a hotel.

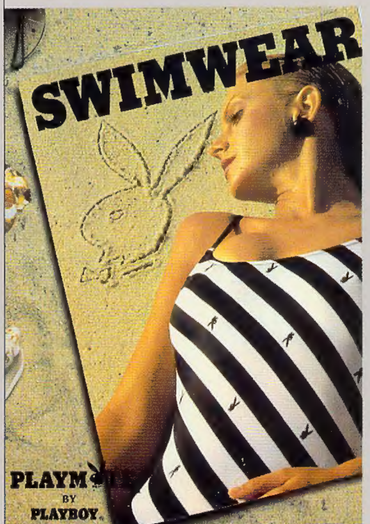
The worldwide chain of Playboy Clubs now totals 13, of which 11 are franchised.

Clubs

Broader distribution helped the Products Division increase its profits by nearly 32 percent for the fiscal year. The division directs a worldwide licensing program, as well as wholesale and direct marketing units which merchandise high-quality Playboy products.

New licensees for the Playmate and Playboy lines were added in such categories as women's jeans and jeanswear, women's activewear and Playboy party supplies.

The Products Division now mails catalogs twice a year, showcasing Playboy products to 1.5 million potential customers.



Products

The company's commitment to community involvement and support for social justice programs remains strong.

During the year, the Playboy Foundation supported many not-for-profit organizations, such as the American Civil Liberties Union, in both financial and nonfinancial ways.

The Foundation continued its Hugh M. Hefner First Amendment Awards program. Television journalist Martin Agronsky, civil liberties lawyer Alan Dershowitz and investigative reporting project director Liza Pike were the 1984 judges.

In Los Angeles, the Sixth Annual Playboy Jazz Festival once again played to a sellout crowd.

Public Affairs

Financial Highlights
for the years ended June 30

	1984	1983	1982
Operating Data (in thousands except per share amounts)			
Net sales and revenues from continuing operations	$ 187,144	$ 193,672	$ 210,093
Income (loss) from continuing operations—			
Before income taxes and extraordinary item	9,690	(11,224)	(14,477)
Before extraordinary item	6,298	(12,187)	(16,190)
Income (loss) from discontinued operations before extraordinary item	12,433	(5,306)	(35,491)
Net income (loss)	27,336	(17,493)	(51,681)
Income (loss) per common share—			
Continuing operations before extraordinary item	.64	(1.23)	(1.64)
Discontinued operations before extraordinary item	1.25	(.54)	(3.59)
Net income (loss)	2.76	(1.77)	(5.23)
Year-end Position (in thousands except per share amounts)			
Shareholders' equity	$ 82,122	$ 54,570	$ 71,977
Book value per share	8.28	5.51	7.28
Stock Price (High-Low)			
First quarter	$12¾-8⅝	$10⅛-7	$12⅝-7¾
Second quarter	10⅛-7⅛	8⅜-6⅝	9⅛-5¾
Third quarter	9½-7½	11¼-6½	9¼-6¼
Fourth quarter	12 -8½	14⅛-9⅜	9⅜-7¾
Dividends			
First quarter	$ —	$ —	$ —
Second quarter	—	—	.06
Third quarter	—	—	—
Fourth quarter	—	—	.06

To Our Shareholders:

Hugh M. Hefner, chairman and chief executive officer, and Christie Hefner, president and chief operating officer, Playboy Enterprises.

A stronger, leaner Playboy Enterprises returned to profitability during fiscal year 1984, generating $27.3 million in net earnings, including $1.6 million in operating income before income taxes from its continuing businesses. This $44.8 million improvement year to year in the company's financial performance can be attributed to substantial improvements in three of the company's four operating divisions, as well as the divestiture of several assets. The company also ended the year with a very strong balance sheet.

Indeed, the results of fiscal 1984 were gratifying to Playboy's employees and shareholders.

Company's asset base grows

The company's cash balance increased from $26.6 million at June 30, 1983, to $46.7 million at June 30, 1984. The $20.1 million increase included $5.4 million from the operations of its continuing businesses, $7.6 million that represents the first installment on the sale of our interest in an Atlantic City hotel-casino, and net proceeds of $10.1 million from the sale of the company's interest in both the partnership owning the Playboy Building in Los Angeles and the adjacent undeveloped land.

Our ratio of current assets to current liabilities improved from 1.6 to 2.8. At the close of the year, the company had only one significant long-term financing obligation, a $5 million note payable in 1989 to Rainbow Programming Services Company, our cable television programming distributor.

Company utilizes tax attributes

Playboy recorded an $8.6 million extraordinary benefit during the year, resulting from the use of tax loss carryforwards. The company ended the year with tax attributes that included $8.1 million in net operating loss carryforwards, $25.6 million in foreign tax credit carryforwards and $2.8 million in investment tax credit carryforwards which are available to reduce taxes on future profits.

Continuing businesses show gains

Publishing

The Publishing Division demonstrated impressive gains in profitability and was the company's earnings leader, due to a very strong performance by PLAYBOY magazine, the six Playboy newsstand specials and our international publishing operations.

With circulation stable at its rate base of 4.1 million, PLAYBOY continued to lead all men's magazines by a wide margin.

The magazine nearly doubled its earnings over last year's as a result of very strong newsstand sales of the December issue, featuring Joan Collins, and the 30th Anniversary issue, as well as successful cost control programs, particularly in the manufacturing area. While we do not expect to achieve the same level of profitability in fiscal 1985, we anticipate circulation stability and increased advertising pages. In addition, an advertising rate increase of seven percent effective with the October 1984 issue will partially offset substantial paper and postage increases, which are anticipated.

Video

Continuing subscriber growth for The Playboy Channel, to nearly 720,000 at year-end from 500,000 at June 30, 1983, plus strong sales of Playboy's home videocassette and disc releases, propelled the Video Division into profitability in the third and fourth quarters. The division's fiscal year loss of approximately $300,000 compares favorably to its $2.3 million loss in 1983.

Subscriber growth was reported in most of the 267 cable systems carrying the Channel at June 30, 1983, as well as the more than 185 systems which began carrying Playboy during fiscal 1984. In order to gain the widest possible cable operator support for new launches and to increase satisfaction among current subscribers, we plan during fiscal 1985 to significantly increase our investment in programming to enhance the quality and increase the quantity of original programs and films. We plan to produce an average of 12 premiere programs a month, up from seven in fiscal 1984, and to license more high-quality major studio films as well as pre-buying and co-producing more made-for-pay-television movies.

In the home video segment, each of our first five videocassettes was certified a "gold" release, and Volume One of our *Playboy Video Magazine* series was certified "platinum." The distributor for the magazine series, CBS/FOX Video, is planning from eight to 10 home video releases in fiscal 1985.

Clubs

The Club Division lost $2.9 million for the year, which included approximately $600,000 of one-time costs associated with the development of the new New York City Playboy Club.

To direct that project and to improve the division's two other owned-and-operated clubs, we formed a management venture relationship with Lettuce Entertain You Enterprises and its founder and president, Rich Melman. We believe that company's manage-

ment skills and ability to create dining and entertainment concepts which appeal to a young, upscale customer base will be of great value in improving the Playboy Club product.

The new New York club, which is under construction, will showcase a number of entertainment, food, beverage and marketing changes which are innovative for the Playboy Club chain, including a bar open to the public and featuring video entertainment. Both the public bar and the keyholder club are intended to become prototypes for future franchising growth.

During the year, the division continued to emphasize the development of hotel-based franchise operations. The franchised Playboy Club of Omaha, located in a Sheraton Inn, opened to great success in late fiscal 1984, and the Playboy Club of Miami was relocated to a site adjacent to an airport inn and then franchised.

Products

Retail sales by licensees increased more than 30 percent during the fiscal year, bringing total sales of Playboy products at the retail level to more than $200 million worldwide. Overall, the Products Division reported a profit increase of nearly 32 percent, to $3.8 million. Much of the improvement can be attributed to a shift in our marketing focus to a younger audience and a move to wider distribution. Our products have become much more visible in the marketplace because the purchasing patterns of the target group require mass merchandising, including distribution through major chains such as J.C. Penney's.

Divestitures contribute to profit

The divestiture of the company's 45.7 percent interest in an Atlantic City hotel and casino contributed substantially to profits during 1984. The sales price of $58.5 million, including management fees totaling $5.6 million payable no later than the sixth year, generated a gain before income taxes of approximately $16 million. The purchaser, Playboy's partner in the venture, paid $7.6 million at closing and signed a six-year promissory note for $45.3 million, bearing interest at 10 percent per year. By mutual agreement, Playboy took back all rights to its name and trademarks.

The sale concluded the company's involvement in the ownership and operation of gaming establishments. Earlier in fiscal 1984, the company ceased operations at its leased Bahamian casino. Playboy sold its United Kingdom casinos and betting shops in fiscal 1982.

Also contributing to fiscal 1984 earnings was the sale of the company's interest in both the partnership owning the Playboy Building in Los Angeles and the adjacent undeveloped land. The company sold these properties for approximately $10.7 million in cash, resulting in a gain before income taxes of approximately $8.3 million, of which $4.5 million was included in fiscal 1984 earnings. The company executed a master lease for, and continues to occupy, the Playboy Building in Los Angeles.

Playboy continues restructuring

Fiscal year 1984 witnessed the beginning of the second phase of the company's management restructuring, which began in April 1982. President Christie Hefner assumed the additional title and responsibilities of chief operating officer, and the Office of the President was disbanded.

Marvin L. Huston, executive vice president in the former Office of the President, left management at the end of fiscal 1984 to devote full time to his private business interests, although he will remain on the board of directors. A new position of senior vice president, with combined responsibilities as chief financial and administrative officer, was created, reporting to Ms. Hefner. John F. Phillips, an outstanding executive, was recruited after most recently serving as chief financial officer of Max Factor & Company, to fill this important role.

Use of Chicago Mansion donated to Art Institute

The Playboy Mansion of Chicago, which served as the headquarters of Playboy's founder and chairman from 1959 through the mid-1970s, was turned over to the School of The Art Institute of Chicago in August 1984. Playboy donated use of the Mansion's main building and sold to the school the Mansion's south addition. The school will use the buildings as a residence hall for students. All operating costs will henceforth be assumed by the institute, and the school has renamed the complex Hefner Hall.

Shown here at the front gate of Hefner Hall—formerly the Chicago Playboy Mansion—are (from left to right): Christie Hefner, Playboy president and chief operating officer; Neil J. Hoffman, president of the School of The Art Institute of Chicago; and E. Laurence Chalmers, president of The Art Institute.

Future holds promise

Your company stands at the threshold of an exciting new era. Our efforts to streamline existing businesses and divest ourselves of unprofitable and unpromising operations clearly are beginning to pay off. In addition, we are justifiably proud of a new and very promising business in video and cable, which has been started with a modest capital investment. We hope to dramatically increase the worth of this business by improving our programming and distribution efforts.

The company continues to enjoy a substantial investment position from which it derives significant interest income. The divestiture of assets during fiscal year 1984 and early fiscal 1985 has added to this position. Employing these cash reserves, we will continue to develop our ongoing businesses while exploring opportunities for expansion consistent with our media and marketing orientation.

We plan to manage our company's considerable resources in this manner to achieve even greater success in future years.

Hugh M Hefner

HUGH M. HEFNER
Chairman and Chief Executive Officer

Christie Hefner

CHRISTIE HEFNER
President and Chief Operating Officer

PLAYBOY's holiday editions are always special treats, but the much-discussed pictorial featuring actress Joan Collins made the December '83 issue an extra-special seller. With sales of about five million, the December issue provided advertisers a substantial bonus over the magazine's 4.1 million circulation rate base.


WHAT TOM SELLECK KNOWS ABOUT WOMEN
PLAYBOY
ENTERTAINMENT FOR MEN
DECEMBER 1983 • $3.50
DYNASTY STAR JOAN COLLINS UNCOVERED
GALA CHRISTMAS ISSUE
SEX STARS OF '83
Great Holiday Stuff
David Halberstam
Hunter Thompson
William Manchester
Isaac B. Singer
George V. Higgins
Anson Mount
WE PUT THE SEX INTO FLASHDANCING
YOU CAN BEAT WALL STREET
SPECIAL BONUS! PLAYBOY'S GUIDE TO ELECTRONIC ENTERTAINMENT

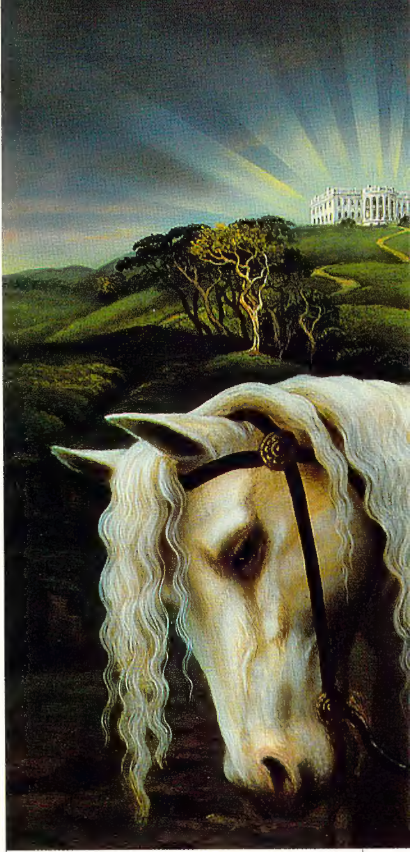
With PLAYBOY, the world's best-selling men's magazine, as its cornerstone, the Publishing Division is the company's primary source of revenues and profit. During the fiscal year, the division posted a profit of $17.9 million, more than doubling its earnings of fiscal 1983.

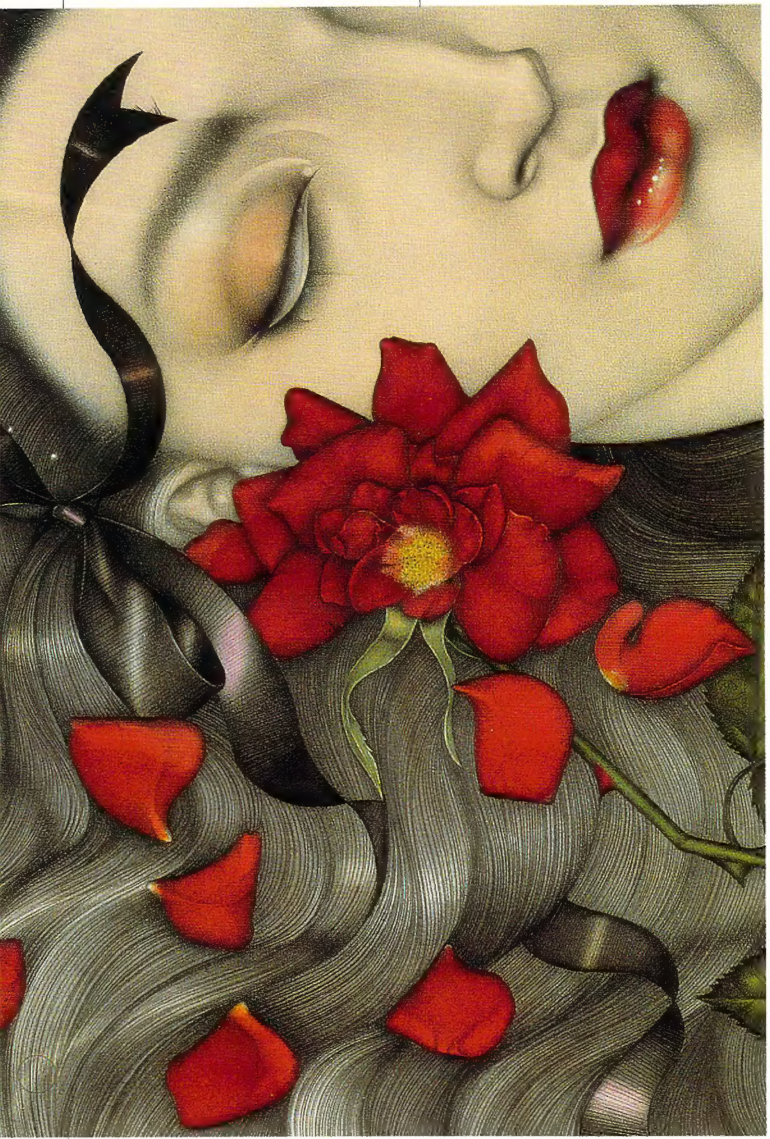
The division publishes another consumer magazine, GAMES, which narrowed losses from the previous fiscal year by nearly 25 percent. New advertising categories were opened for GAMES, demonstrating increasing awareness and acceptance of this unique publication.

Other division activities that utilize Playboy's publishing expertise and capitalize on the worldwide recognition of the Playboy name include the publication of Playboy newsstand specials and calendars, the licensing of PLAYBOY for publication in foreign countries and the distribution of PLAYBOY and nearly 50 other publications abroad through a subsidiary, Boarts International.

PLAYBOY at 30: better than ever

PLAYBOY ushered in its fourth decade with typical PLAYBOY flair. The magazine met its 4.1 million circulation rate base and provided advertisers with several bonus issues, sharpened its editorial focus as the handbook for young American males, and continued its newsmaking tradition by offering controversial *Playboy Interviews*, provocative pictorials and some of the finest journalism and fiction published today.





Mel Odom's illustration reflects the beauty and pain of Nobel Prize winner Gabriel Garcia Marquez's "The Trail of Your Blood on the Snow" (January '84), one of the pieces of superb fiction that appeared last year in PLAYBOY.

In 1984, PLAYBOY strengthened its worldwide circulation lead among magazines for men and had monthly worldwide readership, including foreign editions, of about 26 million. An increasingly broad mix of advertisers placed PLAYBOY fourth in ad revenues among all monthly magazines, according to the latest rankings in the magazine publishing industry's standard reference, *Folio: 400.*

PLAYBOY also continues to rank in the top ten of consumer magazines on the basis of combined advertising and circulation revenues. And male college students, an important demographic group to PLAYBOY advertisers, once again made PLAYBOY their number-one choice on campus.

PLAYBOY, in fiscal 1984, nearly doubled its profitability over the previous fiscal year. Contributing to this strong performance were two issues that registered sales substantially greater than our 4.1 million rate base. The December 1983 issue, featuring television star Joan Collins, was a much-publicized success, and was followed by strong sales of the January 1984 30th Anniversary tribute.

Also contributing to the magazine's profitability increase were more effective cost controls in printing, along with stable paper and shipping prices during fiscal 1984. Unfortunately, price stability within the industry will not prevail during fiscal 1985. Substantial increases in paper prices are expected due to an industrywide shortage of high-quality magazine-grade paper. Additionally, some observers expect substantial boosts in postage rates. While these factors will likely preclude maintenance of fiscal 1984 profit levels, they will be partially offset by a seven percent increase in advertising rates, effective with the magazine's October 1984 issue.

PLAYBOY's newsstand success during the year was augmented by its very healthy subscription base. Indeed, nearly 60 percent of PLAYBOY's circulation came from subscriptions. PLAYBOY's subscription strength provides circulation dependability and demonstrates the in-home acceptance the magazine has achieved.

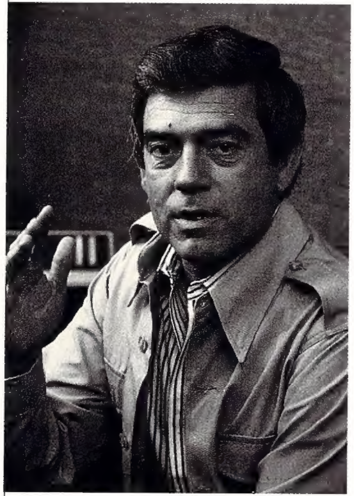
Another advantage PLAYBOY brings to advertisers is highlighted in a recently launched advertising sales campaign. "Making Every Issue Special" points out to advertisers the featured service topics in upcoming issues that are likely to attract readers who are interested in a particular product area. The campaign highlights PLAYBOY's reputation as an established provider of essential information to male readers. As the campaign's tagline says, "Nobody Knows Men Better Than PLAYBOY."

Clearly, Playboy is committed to maximizing the effectiveness of advertising dollars spent in its magazines. Advertisers who wish to take full advantage of PLAYBOY's

In "One Brief Shining Moment," author William Manchester recalled the heady days of the 1960 presidential campaign, when "the future was bright and everything seemed possible" (December '83).

appeal can get assistance from promotional appearances by PLAYBOY's popular Playmates, who are available for trade shows, conventions and other special events.

If PLAYBOY's financial results for its 30th year were excellent, readers would probably agree that the editorial content was also first rate. During the fiscal year, a number of editorial landmarks were achieved in PLAYBOY.



Number-one newscaster Dan Rather held forth on local and network news, *60 Minutes* and his ascent to Walter Cronkite's lofty perch in the January '84 "Playboy Interview."

The editorial refocusing that was begun in the fall of 1983 is an ongoing process and has been well received by readers and advertisers. PLAYBOY has, of course, a long tradition of service to its male readers, but has now positioned itself even more strongly in the service area as the essential guidebook for men. The emerging "new male" consumer is more strategic and more pragmatic about his purchases, and PLAYBOY is providing him with more of the information he requires in making astute buying decisions.

Beginning with the December 1983 issue, PLAYBOY now includes its *Playboy Guides* within the magazine. The *Guides*, which used to appear separately on newsstands, are featured every other month and provide a storehouse of information about such topics as electronics, fashion and automobiles. A new column by noted financial writer Andrew Tobias, *Quarterly Reports*, provides readers with useful guidance regarding investments and personal money management.

As the "new male" continues to emerge, PLAYBOY will be responsive to his needs. We are continuing to work with the well-known research firm of Yankelovich, Skelly and White in identifying the interests and concerns of PLAYBOY's readers.

PLAYBOY's editorial features are often as provocative as its pictorials and this year offered a number of highlights. In the newsmaking tradition of the *Playboy Interview* were this year's conversations with Jesse Jackson, Dan Rather and a group of Sandinista leaders. Outspoken television star Joan Collins, whose December pictorial was the talk of the country, was just as revealing in her April *Playboy Interview*.

The PLAYBOY reputation for newsmaking nonfiction was observed as well with controversy-sparking articles about the children of the Kennedy family and with an excerpt from Robert Woodward's *Wired*, a much-discussed account of the last days of entertainer John Belushi. Prominent authors also continued to enrich PLAYBOY's pages, with contributions this year from Nobel Prize winner Isaac Bashevis Singer, John Updike, William Manchester, Kurt Vonnegut, Jr., and Ray Bradbury, among others.

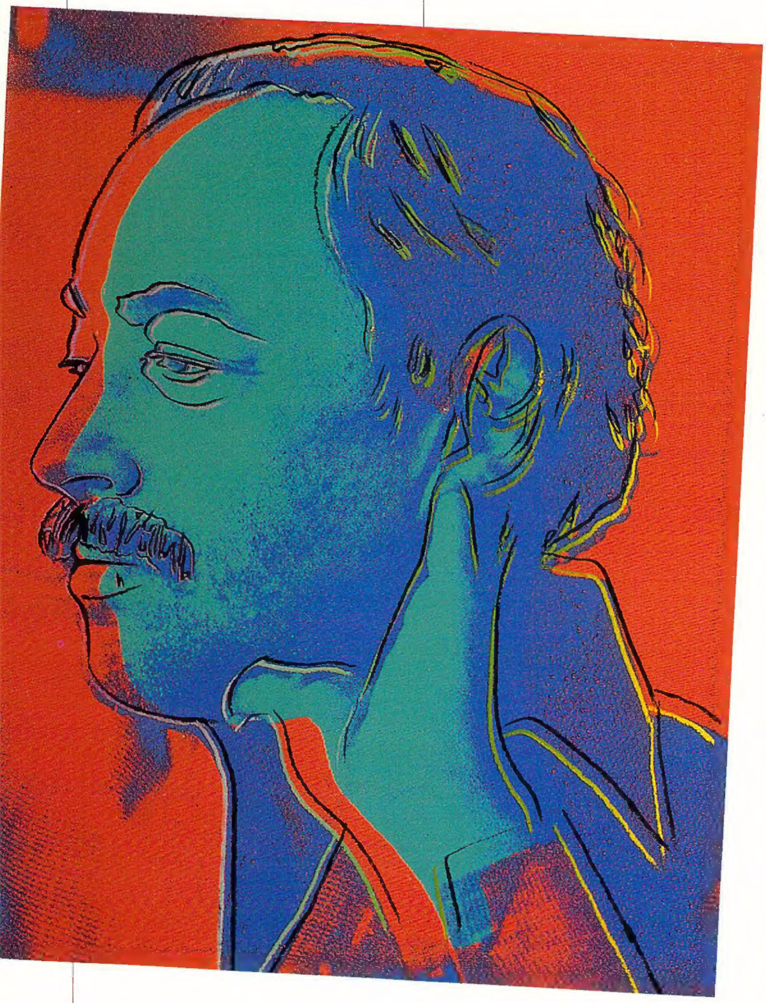
PLAYBOY's readers weren't the only group to acknowledge PLAYBOY's editorial excellence. Writers Paul Erdman, Andrew Tobias and Asa Baber all received nonfiction writing awards for articles that appeared in PLAYBOY.

PLAYBOY's best are best sellers

The appeal of the women who are featured in PLAYBOY pictorials was dramatically underscored this year through another Publishing Division operation—the sale of newsstand specials and calendars. The specials, which are thematic presentations of photographs shot for the magazine, provide a very healthy flow of revenue with little investment required. During the

After several years on the newsstand as stand-alone publications, the informative *Playboy Guides* have found a fitting home—PLAYBOY magazine. The *Guides* made their debut as part of PLAYBOY in the December '83 issue.

Truman Capote offered PLAYBOY readers a kind reminiscence of playwright Tennessee Williams in the January '84 issue.



Actor Rob Lowe, whose credits include co-starring with Jacqueline Bisset in the movie "Class," sported a casually classy look in this photo from the fashion article, "The Lowedown on Sweaters" (February '84).

fiscal year, six newsstand specials were released: *Playboy's Girls of Summer*, *Playboy's College Girls*, *Playboy's Playmates: The First 15 Years*, *Playboy's Leading Ladies* (a re-release), *Playboy's Working Women* and *Playboy's Book of Lingerie*.

Now that an every-other-month release schedule has been established for our newsstand specials, consumers have a predictable pattern on which they can rely. The specials are available by mail order and in bookstores, in addition to newsstands, at a cover price of $3.95.

PLAYBOY calendars offer reprises of readers' favorite Playmates, so their enduring popularity is no surprise. The calendars are available in both standard wall size and a new deluxe wall version, as well as a desk-top edition.

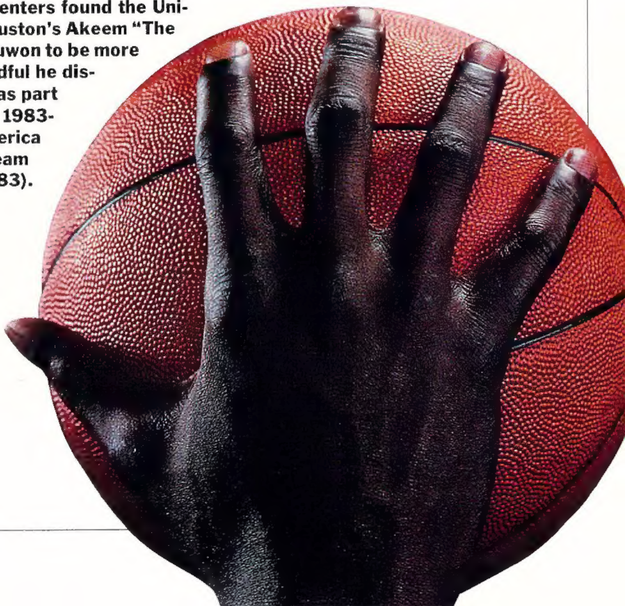
Banner year abroad for PLAYBOY

Also contributing to the Publishing Division's overall success this fiscal year was the International Publishing segment, which oversees the publication of nine licensed foreign editions of PLAYBOY magazine. The foreign editions were able to maintain the previous year's total circulation level of 1.7 million copies per month despite the effect of runaway inflation and depressed economics in some countries. Total readership remains strong at nearly nine million per month.

Two prominent success stories among the nine editions dealt with our newest foreign edition, PLAYBOY Netherlands, and our oldest, PLAYBOY Germany. The Netherlands edition's sellout of its first issue last year was notable but by no means unexpected. After only its first year of publication, PLAYBOY Netherlands has established itself as the country's largest general circulation monthly magazine.

Also establishing new circulation benchmarks was the German edition, which passed the 500,000 sales level. Circulation of the Mexican edition recently leaped from relatively small to extraordinary. A name change that

Opposition centers found the University of Houston's Akeem "The Dream" Olajuwon to be more than the handful he displayed here as part of PLAYBOY's 1983-1984 All-America basketball team (December '83).



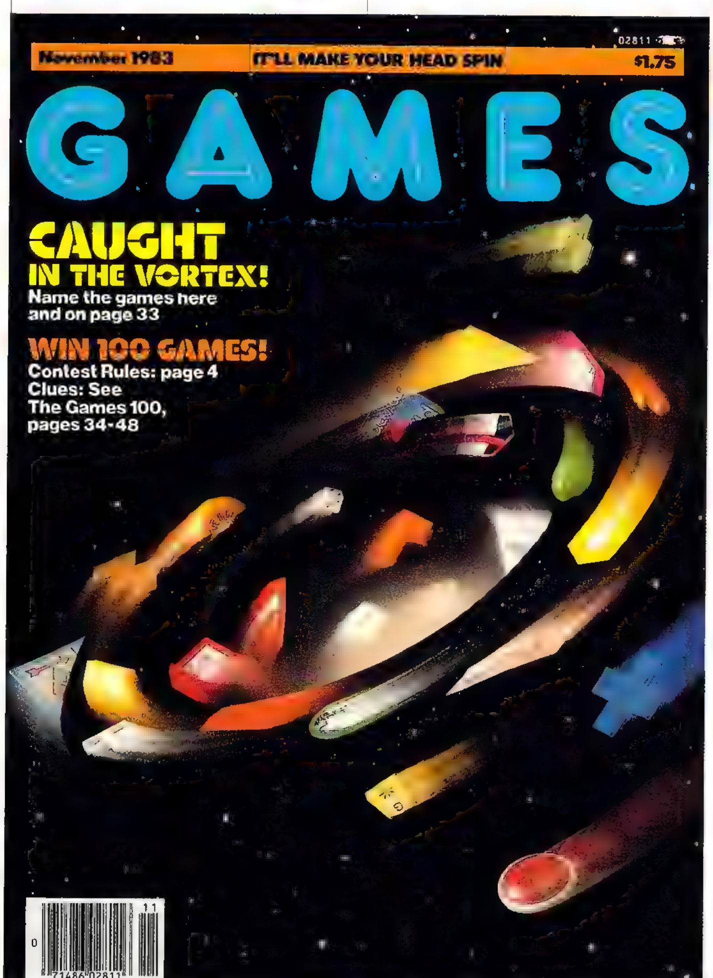
incorporates the word "Playboy" was the only alteration that was made, but the added appeal caused the first PLAYBOY Mexico under the new name to sell out at the newsstand. Other foreign language editions of the magazine are published in Australia, Brazil, France, Italy, Japan and Spain.

Unique GAMES moves toward niche

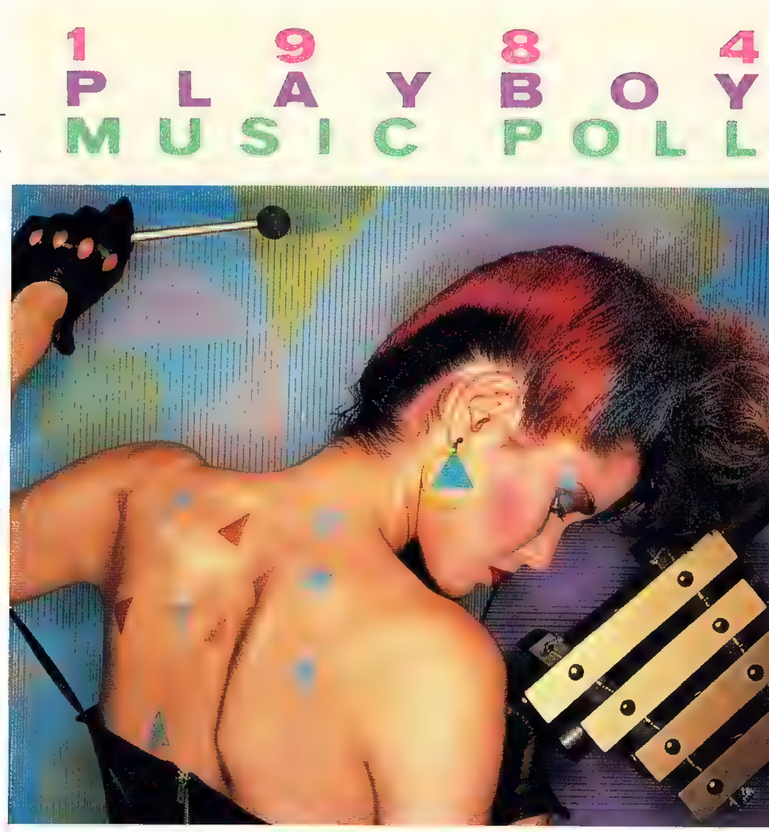
Although not as well known as its PLAYBOY stablemate, GAMES has gained increasing acceptance among readers and advertisers. Playboy purchased GAMES in 1978, at that time a bimonthly. As a monthly, its circulation rate base is now 650,000. GAMES attracts a young and affluent audience that enjoys the mental challenge of its puzzles and mind-benders.

Although GAMES has not yet shown a full-year profit, it continues to be very popular among its 2.4 million readers and is growing in acceptance with advertisers. During the year, four key advertising categories debuted in the magazine that should help it ultimately reach its goal of profitability. The new categories are cameras, domestic automobiles, foreign automobiles and personal computers.

A new trade advertising campaign designed to illustrate the appeal of GAMES to intelligent, upscale readers was launched. The ads featured celebrities such as author Stephen King, sports commentator Dick Schaap and Broadway actor John Weiner enjoying the GAMES challenge during their few spare moments.



The GAMES challenge begins on the cover. No wonder readers of this unique "interactive" magazine spend an average of eight hours each issue on its puzzles, mind-benders and contests.



This photo suggested some new musical directions for the 1984 PLAYBOY Music Poll (November '83). Readers responded by electing eclectic artist David Bowie to the PLAYBOY Hall of Fame.

GAMES attracted national attention during the year through promotion of its Nationwide Scavenger Hunt. More than 4,000 readers completed the hunt, which required that they employ considerable ingenuity to unearth interesting and unusual items not generally found in the home or office.

Another national contest cosponsored by GAMES drew considerable attention. The challenge was the U.S. Open Crossword Puzzle Championship, which brought more than 250 of the country's crossword masters together for a showdown in New York City.

In addition, a book contract was recently signed that will provide GAMES materials for use in educational settings.

Boarts: Playboy's expertise overseas

Boarts International, a wholly owned Playboy subsidiary, continued to provide expertise in worldwide magazine distribution to its nearly 50 client publishers. *Interview* magazine, a widely discussed publication founded by artist Andy Warhol, is the most recent addition to the list of Boarts' clients. Boarts is one of the largest companies engaged exclusively in the foreign distribution of U.S. periodicals and paperback books.

As an international distributor, Boarts offers its clients a full range of management services, including sales promotion and marketing assistance, professional EDP reporting and traffic management.

The young and rapidly growing pay-television industry continues to offer great promise for Playboy Enterprises.

After less than two years of operation, our Video Division broke through to profitability in the third and fourth quarters of fiscal 1984. While that achievement was notable, the potential for even greater reward lies in the expanding video marketplace.

There are approximately 36 million basic cable television subscribers in the United States, up from 32 million just a year ago. New cable households are being added at a rate of about 300,000 per month.

In the home video area, it is estimated that slightly more than 10 million of the country's 84 million homes are equipped with videocassette recorder/playback units (VCRs). The number of homes with VCRs, which doubled in 1983 over the previous year, is expected to grow to 20 million, or 25 percent of all households, by 1990.

Overseas markets, moreover, should provide Playboy with a future source of significant revenues. The VCR boom currently being experienced in the United States has begun to occur in a number of European and Asian countries, and cable and other forms of pay TV are expected to make considerable inroads overseas in coming years.

Clearly, Playboy's strong brand identity and already established presence in electronic publishing is likely to be further enhanced as the number of avenues for the distribution of our programming continues to expand.

Growth marks year for Video Division

With The Playboy Channel as its cornerstone, the Video Division also generates revenues from home videocassette and disc sales. Syndication of Playboy's original programming and made-for-Playboy feature films through distribution technologies such as subscription television (STV), in-hotel video systems and satellite master antenna television systems (SMATV) provides a further source of revenues. To satisfy the demand in each of these markets, the division continued to increase its inventory of original programs and films and to build a core staff of executive and production personnel.

Expansion of The Playboy Channel's subscriber base and brisk sales of home videocassettes and discs led the division to its first quarterly profit in the third quarter of the fiscal year. The trend continued in the fourth quarter as the Video Division again posted a quarterly profit. Although the two positive quarters were not sufficient to bring annual results into the black, they certainly augur well for future operations.

New programming, new markets for Playboy Channel

When it was officially launched in November 1982, The Playboy Channel was seen on less than 275 cable systems by fewer than 300,000 subscribers. By the end of fiscal 1984, the number of subscribers had risen to nearly 720,000 and the Channel was available on more than 450 cable systems.

The same combination of sophistication and style that sets PLAYBOY magazine apart from other publications is also beginning to provide contrast between The Playboy Channel and other pay channels. In order to become better recognized as a distinctive service, the company expects to continue to invest funds to build an inventory of high-quality original programs tailored to the tastes of Playboy's discriminating audience.

Research on this growing audience supports the company's belief in the market viability of The Playboy Channel even in the highly competitive environment of cable programming services. Viewer research indicates that Playboy-produced programs such as *Playboy Video Magazine*, *Sexcetera: The News According to Playboy*, *Women on Sex* and *Playboy's Candid Camera* are the most popular shows on the Channel. Consequently, more original programs will debut in the upcoming year. The Channel expects to feature an average of 12 original premieres every month, up from seven during the previous year.

Women on Sex, a program targeted at the women who make up 40 percent of The Playboy

Playboy is unmatched in the success of its series of non-theatrical home videocassettes and discs. Each of the releases pictured here has been an industry best seller.

Channel's audience, made its debut this year. The series deals frankly with topics of concern to women and is unique in that its audience, production staff, guests and on-air talent are all women. The uninhibited exchange of viewpoints makes enlightening viewing for men as well as women. Vicki McCarty, a PLAYBOY Playmate, attorney and television personality, and Dr. Janet Lever, a sociologist, moderate the lively show.

Another debut this year was a variation on the popular *Candid Camera* series, this time with a Playboy twist. Host Allen Funt's unsuspecting victims still find themselves the subjects of the hidden camera, but the situations are considerably more spicy.

As expected, the late author-raconteur Truman Capote was frank and forthcoming in his video "Playboy Interview." Capote is seen here on the set with interviewer Larry Grobel.

Beginning in the spring of 1984, The Playboy Channel began regularly premiering original, made-for-Playboy feature films. By producing our own films, we enhance the value of The Playboy Channel subscription while reducing our need to license films which may not meet our standards of quality and taste.

Some made-for-Playboy films that recently had, or will have, their pay-TV premiere on The Playboy Channel include *Frank & I*, *Black Venus* and *Christina* from Harry Alan Towers, producer of last year's acclaimed *Fanny Hill*; and *Malibu Express*, by acclaimed television sports director and motion picture filmmaker Andrew Sidaris.

In addition to holding pay-TV rights to made-for-Playboy films, Playboy retains a profit participation in many other forms of distribution, including theatrical, for most of these productions.

Community access key to future Channel growth

An important part of providing a Playboy pay-television service is establishing the same mainstream acceptance PLAYBOY magazine has gained during its 30 years. We believe increasing our investment in The Playboy Channel's programming to enhance its quality helps to achieve that acceptance. But high-quality material that meets community standards may not be sufficient if those who must make the decision to offer the Channel on their cable system are not provided with accurate information about the nature of our programming.

With that in mind, the company has undertaken a strategy to aggressively assure that The Playboy Channel is accurately portrayed by improving our direct communication with the multiple-system operators (MSOs) who serve a large portion of the cable audience.

At the local system level, a coordinated launch program has been implemented to help clarify for community leaders and the public the nature of our service. Playboy public affairs professionals and representatives of Rainbow Programming Services Company, our distributor, meet with the system operator, local officials and other segments of the community before the Channel is launched in order to clear up any misimpressions, such as "The Playboy Channel shows X-rated programming," or "The Playboy Channel features violence."

On the national level, the company is taking a stronger role in making sure that the interests of all programmers are protected under the First Amendment. This

Who knows more about the best adult films available today than The Playboy Channel? The Channel's expert on such matters, Ava Cadell, provides her candid comments on what's hot—and what's not—during monthly installments of *Pillow Previews*.

Allen Funt, the funniest man never to tell a gag, is back on television with a no-holds-barred version of his television series—Playboy style. In this skit from *Playboy's Candid Camera*, the young lady uses her charms to entice a young man into fixing her flat tire. She *doesn't* tell him that her husband, played by Funt, is sleeping in the back seat.

role includes informing federal and state legislators of the constitutional dangers inherent in proposed laws that seek to allow government regulation of cable television programming content.

Home video segment solid and growing

Nowhere is the appeal of Playboy programming more readily apparent than in the sale of our home videocassettes and discs. Since the first videocassettes and discs were shipped in November 1982, home video total sales have gone well past 250,000 units.

During fiscal 1984, six new home video offerings were released. Three of the new releases were from our popular *Playboy Video Magazine* series. In this series, distributed by CBS/FOX Video, the appeal of PLAYBOY magazine is captured in a video magazine format presentation. Because the magazine releases contain, in different form, the most popular excerpts of Playboy Channel original programming, production costs are modest. Other releases during the year included a *Playmate Review* and a *Playmate Workout* video. A collection of performances from the Playboy Jazz Festival was also released, this one on the RCA/Columbia Home Video label.

One benchmark of sales strength that is well recognized is the "gold" certification of the Recording Industry Association of America (RIAA). During the fiscal year, Volumes Two, Three and Four of the *Playboy Video Magazine* series joined their predecessor, Volume One, in reaching RIAA's "gold" sales level —25,000 units sold or rented with income of $1 million. Volume One, which was certified "gold" in March 1983, was also certified "platinum," RIAA's highest ranking. Also going "gold" was the first edition of *Playmate Review*. Playboy's collection of gold- and platinum-selling original, nonmovie home video entertainment is unmatched by any other producer of home video programming.

During fiscal 1985, the company will broaden its involvement in home video even further, including the expansion of its *Playboy Video Magazine* series, the release of some of the popular Playboy Channel program series for the home video marketplace and the possible release of made-for-Playboy feature films on videocassette.

Home video expands foreign presence

The *Playboy Jazz Festival* video, released in June 1984, represents another first for the Video Division. While other Playboy home videos are distributed in the United Kingdom, western Europe and Australia, as well as in North America, the Jazz Festival video marks the company's first release in the Japanese market. The company believes that Japan, where Playboy's popularity is already well established, is a natural market in which to expand. We are currently considering other international markets as

Made-for-Playboy productions such as the movie *Frank & I* are an increasingly important part of The Playboy Channel's programming mix.

"Ribald Classics," long a popular feature of PLAYBOY magazine, are also lively additions to The Playboy Channel's *Playboy Video Magazine*. Shown here is a scene from "The Virgin Cup."

Of greater long-term interest to us is the in-hotel pay-TV market. We believe that pay-per-night availability of The Playboy Channel in hotel rooms represents a potentially large source of future revenues. This belief was recently reinforced through a market test, which demonstrated that more than 20 percent of a hotel's guests in a given night chose The Playboy Channel, on a fee basis, as an entertainment option. We are actively pursuing our involvement in this distribution technology with three firms that hold rights to provide lodging chains with pay-television services. With 2.7 million individual hotel rooms in the United States alone, the growth opportunities in this area are apparent.

We also are exploring in a limited number of markets the pay-per-night option as another form of pay cable distribution. This option allows a cable subscriber to elect to view The Playboy Channel on impulse, not unlike purchasing the magazine on the newsstand, and without the requirement that he or she be a monthly subscriber.

This year, The Playboy Channel plans to expand its presence in the multichannel/multipoint distribution service (MDS) marketplace, and has already made inroads in the satellite master antenna television system (SMATV) marketplace. These technologies generally serve apartment buildings and complexes in urban areas, sometimes in competition with cable systems.

The direct-broadcast satellite (DBS) technology, while not yet proven from the standpoint of consumer demand, is nevertheless the subject of investigation on the part of Playboy and other programmers. We are exploring the possibility of making The Playboy Channel, or a selection of its programs, available to DBS subscribers who would pay a monthly fee for the right to receive multiple program services directly from a communications satellite.

additional outlets for our home video products, as well.

Other forms of distribution hold future promise

While cable television and home video are the primary forms of program distribution today, technological innovations continue to expand distribution options and could produce significant revenue opportunities for programmers in future years. Playboy, as the holder of a strong consumer franchise and the owner of a growing inventory of programs and films, is well positioned to take advantage of technological developments already operational and those on the way.

Our involvement in the over-the-air subscription television (STV) market has paralleled our participation in cable. The popular *Playboy Video Magazine* program has been shown on selected ON-TV outlets since the inception of the series. An assortment of Playboy programs is made available each weekend to viewers of the SelecTV Los Angeles STV system, which currently has 80,000 subscribers. STV operations in Boston, Washington and Baltimore also carry Playboy programming. The continuing growth of cable and other technologies is expected to negatively impact the future prospects of STV, but for Playboy it remains a substantial market in the pay-television industry for the short term.

Actress Cynthia Dale seems to be on top of the world in this scene from *Heavenly Bodies*, a made-for-Playboy feature film which will be released in theaters worldwide during fiscal 1985.

During fiscal 1984, the Club Division continued to pursue a new strategy of in-hotel franchising while taking a fresh look at the basic club product and streamlining the division's administrative staff.

The loyalty of more than one-half million Playboy Club keyholders demonstrates that nearly 25 years after the first club opened, in Chicago, the Playboy name in association with entertainment, drinking and dining still holds great appeal. Nevertheless, we believe the basic Playboy Club can be improved and updated as it enters its 25th year. Our goals are to attract younger and more affluent keyholders and clubgoers, and to attract more women to the clubs.

Restaurant firm signed to revitalize clubs

In May, the company announced it had identified a firm with which it would work in improving its owned-and-operated clubs in Los Angeles, Chicago and New York City. Playboy signed a management venture agreement with this firm, Lettuce Entertain You Enterprises, Inc., a Chicago-based company which operates 17 restaurants and nightclubs in the Chicago and Phoenix markets. Lettuce Entertain You and its founder and president, Rich Melman, are known for their marketing flair and their ability to create entertainment and dining concepts enjoyed by young, upscale consumers.

Lettuce Entertain You is initially concentrating its efforts on the new New York City club currently under development. Changes in the construction and operating plans have been made based on their input. The club is under construction and scheduled to open in early calendar 1985.

Concurrent with the beginning of our Lettuce Entertain You relationship, we moved to significantly reduce overhead costs in the Club Division based on the planned decrease in the number of owned-and-operated clubs.

New York club will serve as prototype

The investment in the New York club is being made both to serve keyholders and to serve as a

The Playboy Bunny symbolizes the fun and excitement that awaits keyholders when they visit one of the Playboy Clubs worldwide.

Playboy Club keyholders enjoy the finest in entertainment, drinking and dining at Playboy-owned and franchised Playboy Clubs in the United States and overseas.

Among the festivities that surrounded the late-May opening of the Playboy Club of Omaha, our newest club, was this colorful ribbon-cutting ceremony. Handling the duties were Tom Tracy, senior vice president of Guild Hotel Management Company, the club's operator, and Bunny Cathy. Looking on (at left) is Mark Guilds, president of Guild Hotel Management Company.

prototype for attracting successful professional hotel and food service companies as franchising partners.

Like our new Playboy Club franchises, the New York Playboy Club, a company-owned facility, will be located in a hotel. The hotel, at 48th Street and Lexington Avenue, is owned by the Taj International Hotels group, which is renovating the property so that it can join its other luxurious hotels and resorts worldwide as a preferred address for business and pleasure travelers alike.

New club prospers in Omaha

The newest franchised Playboy Club opened to great fanfare last May in Omaha, Nebraska. The Playboy Club of Omaha, located in a Sheraton Inn, combines all of the winning elements of Playboy's new franchising formula: an in-hotel location, a medium-size city and the management know-how of an experienced lodging industry firm. The club includes a social bar area, a quiet lounge nestled around a fireplace, a cabaret with live entertainment and a dining area. Omaha, like many medium-size cities around the country, has a need for additional quality entertainment and dining facilities, and the Playboy Club is helping fill that need. Key sales in Omaha continue at a rapid pace and the franchisee expects that more than 6,500 new keyholders will be making frequent use of the club by early fall.

Consistent with the experiences of other in-hotel Playboy Club franchisees, Guild Hotel Management, operator of the Omaha club, reports that occupancy rates at the Sheraton Inn have jumped 10 percent since the club opened. Guild has announced plans to open another in-hotel Playboy Club franchise in Des Moines, Iowa, in late calendar 1984.

Playboy's other in-hotel franchises in St. Louis, Buffalo and Lansing, Michigan, continue to demonstrate keyholder popularity.

Miami club relocates, is franchised

The Playboy Club of Miami, a company-owned-and-operated facility for many years, was relocated to an in-hotel site during the year and subsequently converted to a franchise operation.

The new site of the Playboy Club of Miami, near Miami International Airport, draws keyholders from the metropolitan area's substantial keyholder base, as well as hotel guests and airline employees. Nearly 4,000 new keys have been sold, and club visits have increased dramatically since the club's relocation.

Reduced losses expected in fiscal 1985

The Club Division's loss for the year was $2.9 million, compared to $2.5 million in fiscal 1983. Approximately $600,000 of this loss can be attributed to certain one-time charges associated with the development of the New York club, which is scheduled to open in early calendar 1985. During fiscal 1985, we will realize the full benefit of the overhead reductions implemented late in fiscal 1984, as well as revenues from the new New York club. These factors, combined with franchise-related revenues, should improve results considerably from the current fiscal year.

Some have suggested that the Playboy name is the company's greatest asset. There's no question that our name and the Rabbit Head symbol enjoy worldwide recognition. Playboy's Products Division capitalizes on this appeal through a worldwide licensing program. In addition, the company operates wholesale and direct marketing units which merchandise high-quality Playboy products.

During fiscal 1984, a number of refinements in the company's approach to its licensing operations helped spur the Products Division's profits to marked increases over the previous period. In addition, the company's direct marketing operations, which during the year mailed catalogs to a list of 1.5 million potential customers, contributed to profit growth.

Performance up nearly 32 percent

By concentrating its efforts on those product categories with the most potential and broadening the distribution pattern, the Products Division was able to increase its profit contribution by nearly 32 percent during fiscal 1984.

Worldwide sales of products marketed under Playboy trademarks now total approximately $200 million at the retail level, up from $150 million the previous year. Most of the improvement came from the company's domestic licensees, which account for roughly 60 percent of product licensing revenues. The Japanese market continues to provide the largest share of all overseas business, contributing about 75 percent of the division's revenues generated by overseas licensees.

Target audience clearly defined

Recent consumer research led to a refocusing of the division's merchandising efforts. Emphasis is now placed on the 16-to-26 age group, a slightly younger market than had been targeted before. Along with this move to the more youthful consumer came an effort to expand distribution patterns. Where earlier marketing was directed at a relatively limited audience, our present strategy has broadened our distribution through involvement of mass merchandisers.

Role as licensor strengthened

In the past year, the company moved to exercise more control over the quality and marketing of the products that bear its name and trademarks. Several product categories were dropped, yet the considerable increase in business volume speaks clearly for the strength of the products and licensees that remain.

The company continues to take great initiative in ensuring quality control by insisting on stringent compliance with licensing agreements. We are committed to providing the high degree of excellence that has become associated with the Playboy name.

The company has also taken steps to further improve communications and coordination among licensees. By serving as a coordinator for the advertising and promotion efforts of its

Playmate jeans benefited from a recent promotional push that featured advertisements in several fashion magazines. Raam Enterprises International is the licensee.

licensees, for example, the company assures that merchandising programs are cohesive, not fragmented, and thus have greater impact.

Women's apparel leads licensing growth
Revenues from the women's apparel segment were double those from the previous year and are expected to continue their strong growth trend. Four new women's wear licensees were added during the fiscal year. Raam Enterprises International, Inc., was signed to produce women's jeans and jeans-constructed clothing bearing the Playmate trademark. Women's athletic clothing and running wear with the Playmate mark were licensed by The Harwood Companies, Inc. Playmate bodywear and leotards are manufactured under license by Jacques Moret, Inc. Another new women's wear licensee was added during the year—Adams-Millis, Inc., which expects to make its line of Playmate-brand fashion legwear available for the fall shopping season.

Through its consistent growth, the women's apparel segment now has pulled even with both the men's wear and accessories segments in accounting for roughly one-third of domestic licensing revenues.

Attractive Playmate swimwear, marketed by licensee Stafford-Higgins, is an important part of the division's expanding line of women's apparel.

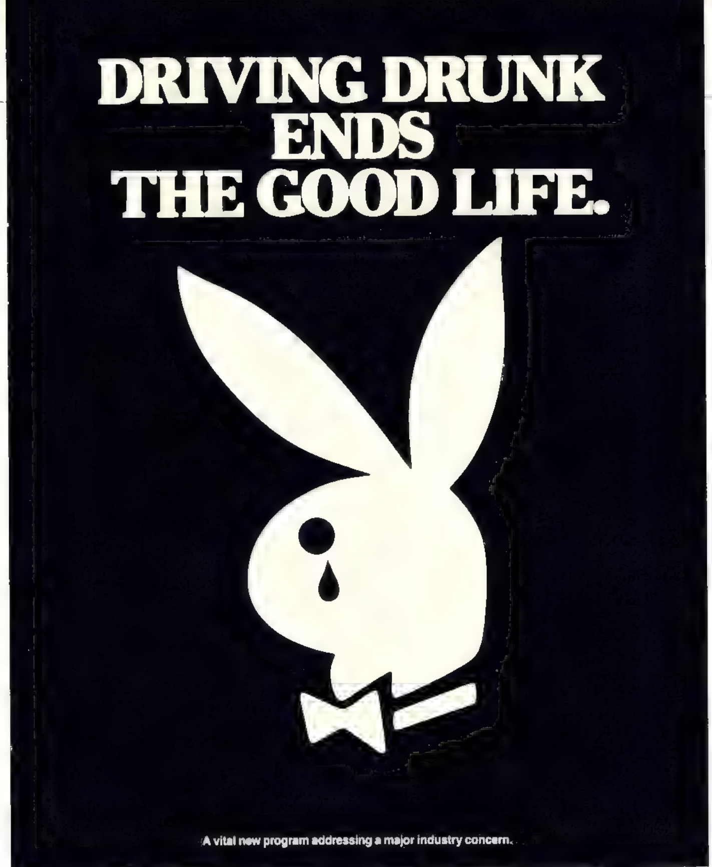
One nonapparel licensee was added during the fiscal year: Unique Industries, to sell a line of Playboy paper party goods.

European efforts bolstered
Although Playboy has had a presence in Europe for many years, much of the area's potential remains untapped. In order to increase the company's European business, an agreement was signed with International Management Group (IMG), which will manage and develop licensing operations there. IMG is one of the world's leading merchandising and licensing management firms. Its network of offices in major European capitals will allow us to avoid the costly process of establishing overseas offices, yet will permit us representation in those cities. The company looks to IMG to take full advantage of the Playboy brand's international recognition and help us reach our full potential in Europe.

"Clothes Make the Man, Playboy Makes the Clothes" was the theme of a major advertising campaign last year which spotlighted Playboy menswear.

Trademark rights defended
Because Playboy's name and symbols are so important to the company, efforts to discourage infringement of the company's trademark rights remain a priority. Although counterfeiting is a serious problem for many companies that own highly marketable symbols, there are indications that the courts are interested in making the practice unprofitable. During the past year, the company collected its largest-ever award—$556,000—resulting from a trademark infringement case. The judgment was made by the U.S. District Court for Southern Florida against a Florida firm that had sold counterfeit shirts bearing Playboy's Rabbit Head symbol. The company intends to continue its vigorous defense of the right to regulate use of its trademarks.

Growth is watchword for outlook
The licensing industry as a whole is expected to grow at a 30-percent rate for the near future. As a key player in the product licensing business, the company hopes to mirror that trend by employing our demonstrated product appeal and better focused marketing.



Playboy's strong association with good times and entertaining makes our campaign against irresponsible drinking a powerful public service tool.

Embracing the ideals originally set forth in *The Playboy Philosophy* and often reaffirmed in the pages of PLAYBOY magazine, the Public Affairs Division expresses the company's support for civil liberties and social justice, and serves as its vehicle for community involvement at both the national and community levels.

Foundation stresses in-kind help

The Playboy Foundation, the company's original instrument for social involvement, maintained its activist posture in light of cutbacks in its budget by emphasizing its in-kind contributions program. Through printing and design assistance, short-term loans and the contribution of staff expertise, the Foundation supported several hundred nonprofit organizations during fiscal 1984. Among other organizations, the Women's Equity Action League and The Committee for National Security received substantial printing donations. Thanks to PLAYBOY magazine's editorial art and circulation promotion departments, the Foundation was able to provide graphic and media expertise to Women for Peace, the United Negro College Fund and other groups.

Consistent with the Foundation's dedication to protecting First Amendment freedoms, it issued grants to a number of civil liberties organizations, including the Center for Investigative Reporting and the Southern Coalition on Prisons and Jails. One of the Foundation's fiscal 1983 grantees, Heartland Productions' *Seeing Red: A Portrait of American Communists*, received a 1984 Academy Award nomination.

In fiscal 1984, the National Abortion Rights Action League (NARAL) received twofold support from the Foundation. In addition to choosing the pro-choice organization for a major grant, the Foundation hosted a benefit at the Chicago Playboy Mansion to honor Senator Robert Packwood and Representative Barbara Mikulski for their support of pro-choice legislation.

First Amendment Awards honor free speech champions

At the fifth annual Hugh M. Hefner First Amendment Awards program in Washington, D.C., this year, four outstanding individuals were honored for their vital efforts in support of First Amendment freedoms. Recognized for community leadership were Helen and Forrest (Frosty) Troy, for continuing the muckraking tradition of the free press through their biweekly newspaper, *The Oklahoma Observer*. Angus Mackenzie, who exposed harassment of the dissident press by United States government agencies, received recognition in the category of national leadership. Frank Wilkinson, for his lifelong commitment to civil liberties as founder of the National Committee to Abolish the House Un-American Activities Committee, received the lifetime achievement award. The winners were selected by Martin Agronsky, award-winning journalist and television show moderator; Alan Dershowitz, civil liberties activist and professor at Harvard Law School; and Liza Pike, program director of the Center for Investigative Reporting. Stanley Sheinbaum, a member of the Board of Regents for the University of California, once again served as a co-director of the program.

Playboy attacks drunk driving

"Driving Drunk Ends the Good Life" is a powerful anti-drunk driving campaign launched this past June. PLAYBOY magazine, by virtue of its significant beverage-alcohol advertising component, considers itself part of that industry and shares its important responsibility to drinking-age adults. With the cooperation of concerned groups, such as college and university chapters of BACCHUS nationwide, public service messages discouraging irresponsible drinking will be disseminated across the country. The campaign is identified by the Rabbit Head logo with a single tear falling from its eye, and by its simple and direct message.

Employees respond to community needs

The employees of Playboy have had a long tradition of generosity and community involvement, and the past year was no exception to this tradition. Chicago-based employees, through their Voluntary Involvement Program, conducted three highly successful food drives for community organizations assisting the poor. Companywide, employees participate in the Employee Matching Gifts and Time-Match programs, which offer them an incentive to contribute to charitable organizations by providing dollar-for-dollar matching funds and $2 per hour for time volunteered to not-for-profit organizations. Some of the major beneficiaries of these programs during the year included the American Cancer Society, Big Brothers-Big Sisters, the Easter Seals Society, Gay Men's Health Crisis, the Jewish United Fund, the Leukemia Society and Hull House.

Jazz festival an L.A. tradition

The annual Playboy Jazz Festival, now in its sixth year, has developed into an unparalleled community affairs extravaganza in Los Angeles. Mayor Tom Bradley once again proclaimed June "Playboy Jazz Festival Month," kicking off a series of free community events that included special concerts for five area public schools, a showcase of top school-sponsored jazz bands, a senior citizens concert and an evening of jazz films. The month climaxed with the two-day, 16-hour jazz festival in the Hollywood Bowl, featuring Ray Charles, Mel Tormé, Carmen McRae, B.B. King and many other music greats.

PLAYBOY

thirty years

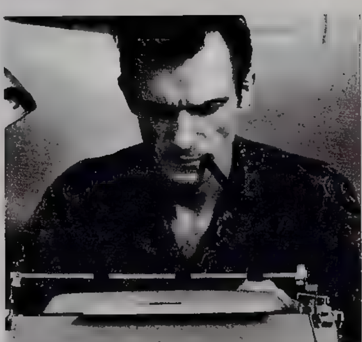
In this its 30th year, we salute our flagship, PLAYBOY magazine. When Hugh Hefner started PLAYBOY in December 1953, it was not his intent to create a "Playboy Empire." His immediate objective was to sell enough magazines to be able to afford to produce a second issue. The first issue ended up selling nearly its total press run, and the second issue of PLAYBOY was secure. So were many others.

Five years later, PLAYBOY was selling more than one million copies per month. With the magazine's success came the Playboy Clubs, the Playboy Mansion and the Playboy Building—all very visible symbols of PLAYBOY and the lifestyle associated with it. By 1965, PLAYBOY's circulation had expanded to more than three million. The total more than doubled by the early 1970s, as circulation exceeded seven million.

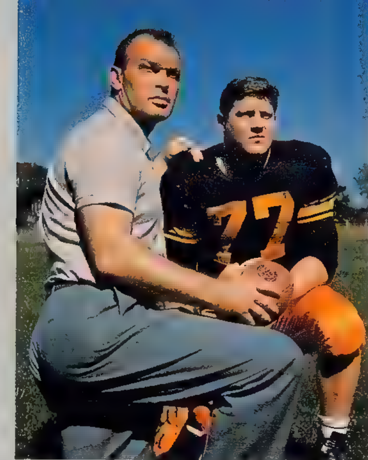
In 1984, PLAYBOY remains the world's largest-selling men's magazine by a wide margin, enjoyed each month by more than 25 million readers, worldwide. And it has over those 30 years remained true to its original principles of taste, sophistication, humor and editorial excellence.

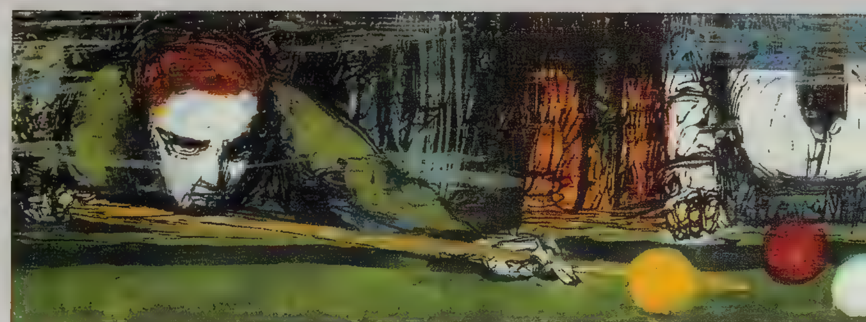
The following six pages feature highlights that commemorate PLAYBOY's past and provide a reminder of the vitality and variety that have marked PLAYBOY's first three decades.

In 1953, when Playboy was founded, America was enjoying an unprecedented period of prosperity. During the next 10 years, new suburbs mushroomed around every city, work began on the interstate highway system and commercial jet travel came of age. While Marilyn Monroe and Elvis Presley soared to stardom, *Sexual Behavior in the Human Female, Peyton Place* and the newly named "beatniks" all aroused public controversy. Storm clouds began to gather when the Supreme Court outlawed segregation in public schools, and France asked for U.S. aid to an obscure country named Vietnam.




THE
PLAYBOY JAZZ POLL

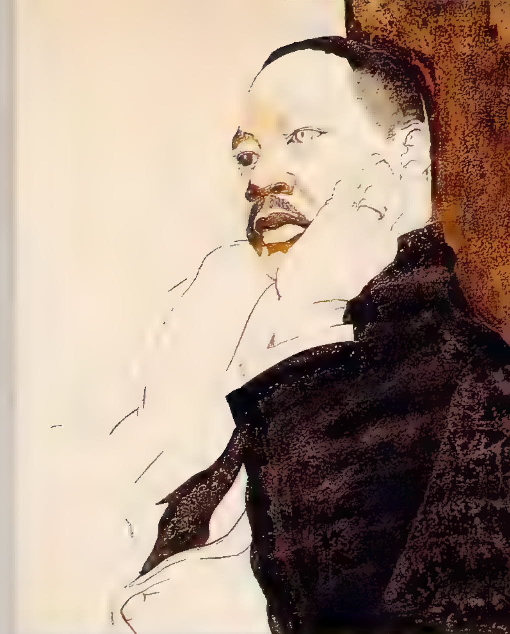





BUS STOP
Silverstein

From Camelot to Watergate

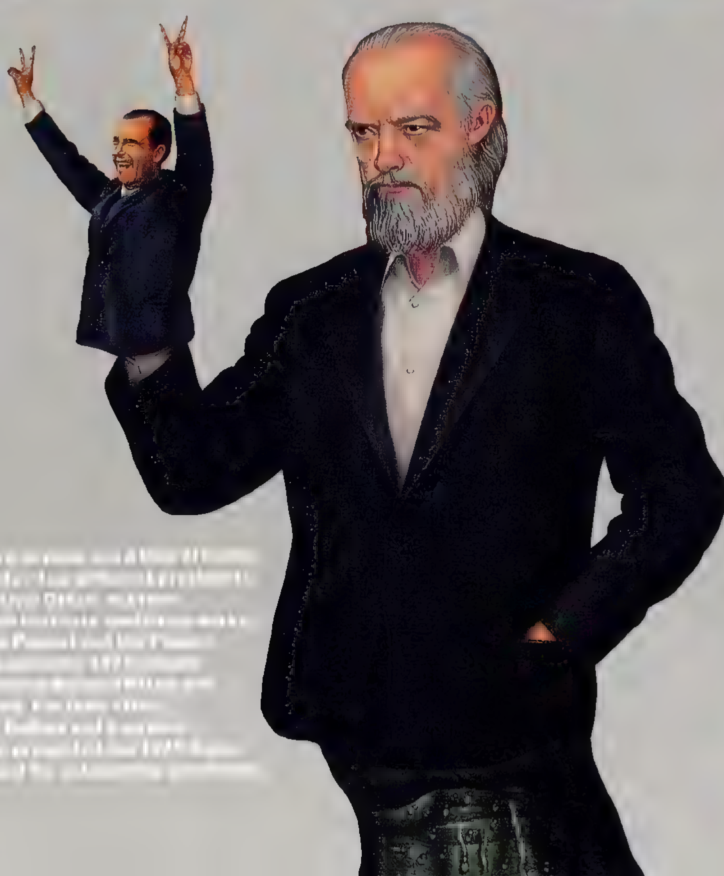
Playboy's second decade, from 1963 to 1973, was one of the most tumultuous periods in American history. The Rev. Martin Luther King, Jr., and others led the struggle for civil rights while members of the baby-boom generation fought—and fought against—the war in Vietnam. Television transformed the world into a "global village"—millions watched the funeral of John F. Kennedy, the tragedy at Kent State and the first of the Watergate hearings. The "British Invasion" brought America the miniskirt, the Beatles and Twiggy.




PLAYBOY

New Realities

In the decade following 1973, America witnessed an energy crisis, the resignation of a president, the end of the war in Vietnam and a bicentennial. These events—and others—changed the way the nation viewed itself and its place in the world. Closer to home, people took a new interest in everything from equal rights to keeping fit, and from video games to the works of young Hollywood directors. Playboy continued to shape—and capture—the spirit of the times, just as it had done for the past 30 years.




PLAYBOY
ENTERTAINMENT FOR MEN
THIRTIETH ANNIVERSARY ISSUE
With the Great Playmate Search and…

1984 Financial Review

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Selected Financial Data

for the years ended June 30

(in thousands except per share amounts)	1984	1983	1982	1981	1980
Net sales and revenues from continuing operations	$187,144	$193,672	$210,093	$221,512	$228,133
Income (loss) from continuing operations before extraordinary item	6,298	(12,187)	(16,190)	(14,273)	1,141
Total assets	169,431	137,565	175,182	248,813	224,440
Long-term financing obligations	3,484	152	349	15,607	15,940
Per common share:					
Income (loss) from continuing operations before extraordinary item	.64	(1.23)	(1.64)	(1.45)	.11
Cash dividends declared	—	—	.12	.12	.12

Interim Information

for each of the four quarters and the years ended June 30

1984 (in thousands except per share amounts)	Quarters Ended Sept. 30	Dec. 31	Mar. 31	June 30	Year
Net sales and revenues from continuing operations	$ 43,284	$ 51,816	$ 44,968	$ 47,076	$187,144
Operating income (loss)	(1,803)	956	2,423	48	1,624
Income (loss) before extraordinary item:					
Continuing operations	(1,383)	1,210	4,593	1,878	6,298
Discontinued operations	—	—	11,417	1,016	12,433
Net income (loss)	(1,383)	1,210	22,825	4,684	27,336
Income (loss) before extraordinary item per common share:					
Continuing operations	(.14)	.12	.46	.20	.64
Discontinued operations	—	—	1.15	.10	1.25
Net income (loss) per common share	(.14)	.12	2.30	.48	2.76

1983	Sept. 30	Dec. 31	Mar. 31	June 30	Year
Net sales and revenues from continuing operations	$ 49,003	$ 53,493	$ 44,435	$ 46,741	$193,672
Operating loss	(3,393)	(1,496)	(4,740)	(5,118)	(14,747)
Loss before extraordinary item:					
Continuing operations	(2,287)	(853)	(3,944)	(5,103)	(12,187)
Discontinued operations	(144)	(2,585)	(1,523)	(1,054)	(5,306)
Net loss	(2,431)	(3,438)	(5,467)	(6,157)	(17,493)
Loss before extraordinary item per common share:					
Continuing operations	(.23)	(.09)	(.40)	(.51)	(1.23)
Discontinued operations	(.02)	(.26)	(.15)	(.11)	(.54)
Net loss per common share	(.25)	(.35)	(.55)	(.62)	(1.77)

Income from continuing operations before extraordinary item for the third quarter of fiscal 1984 reflects a gain after tax of approximately $2,812,000 on the sale of the company's interest in certain real estate ventures. (See Note I of Notes to Consolidated Financial Statements.)

Income from discontinued operations before extraordinary item for the third quarter of fiscal 1984 reflects a gain after tax of $11,417,000 on the sale of the company's interest in the Playboy Hotel/Casino in Atlantic City, New Jersey. In the fourth quarter of fiscal 1984, the income from discontinued operations reflects reductions of $1,024,000 in loss reserves for the disposition of the company's resort, gaming and book publishing businesses. (See Note B of Notes to Consolidated Financial Statements.)

An extraordinary credit of $6,815,000 and $1,790,000 was included in net income in the third and fourth quarters of fiscal 1984, respectively, as a result of the realization of net operating loss carryforwards which existed at June 30, 1983.

In the fourth quarter of fiscal 1983, the company revised its estimate of future revenues associated with its cable program inventory and also reduced the carrying value of specific programs. The net effect was to decrease the loss from continuing operations by $2,954,000.

Loss from continuing operations in the third quarter of fiscal 1983 includes a $1,001,000 gain on the sale of an undeveloped parcel of land. (See Note I of Notes to Consolidated Financial Statements.)

Financial Information Relating to Industry Segments

for the years ended June 30

(in thousands)	1984	1983*	1982
Sales to Nonaffiliates (1)			
Publishing			
PLAYBOY magazine	$120,067	$122,008	$139,744
Other	27,001	28,182	25,591
Total publishing	147,068	150,190	165,335
Video	19,192	12,383	584
Clubs	12,933	19,801	25,252
Products	7,001	6,479	7,109
Other businesses	950	4,819	11,813
Total	$187,144	$193,672	$210,093
Income (Loss) from Continuing Operations Before Income Taxes and Extraordinary Item			
Publishing	$ 17,856	$ 6,488	$ 11,923
Video	(317)	(2,269)	(4,372)
Clubs	(2,921)	(2,533)	(2,794)
Products	3,827	2,911	3,292
Other businesses	(227)	(1,135)	(2,511)
Corporate administration and promotion	(16,594)	(18,209)	(23,753)
Interest, net	3,765	3,570	(3)
Other, net	4,301	(47)	3,741
Total	$ 9,690	$ (11,224)	$ (14,477)
Identifiable Assets			
Publishing	$ 33,856	$ 32,256	$ 40,140
Video	23,472	17,552	4,186
Clubs	4,271	6,079	12,999
Products	1,822	2,244	2,938
Other businesses	234	623	2,538
Corporate administration and promotion (2)	105,776	45,170	77,700
Total assets of continuing operations	169,431	103,924	140,501
Net assets of discontinued operations	—	33,641	34,681
Total	$169,431	$137,565	$175,182
Depreciation and Amortization of Property and Equipment			
Publishing	$ 548	$ 557	$ 505
Video	296	290	99
Clubs	425	757	1,003
Products	51	39	40
Other businesses	20	105	219
Corporate administration and promotion	1,054	1,028	1,299
Total	$ 2,394	$ 2,776	$ 3,165
Capital Expenditures			
Publishing	$ 245	$ 1,047	$ 523
Video	33	90	65
Clubs	644	491	418
Products	11	14	56
Other businesses	2	5	114
Corporate administration and promotion	564	345	969
Total	$ 1,499	$ 1,992	$ 2,145

*Certain reclassifications have been made to conform to the 1984 presentation.
The accompanying notes are an integral part of these tables.

Notes to Financial Information Relating to Industry Segments

(1) Sales to nonaffiliates include export sales of $21,454,000, $21,367,000, and $24,349,000 in fiscal 1984, 1983 and 1982, respectively.

(2) Corporate assets consist principally of cash and short-term investments, receivables from the sale of the company's interest in an Atlantic City Hotel/Casino and corporate property and equipment.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations

Net income in fiscal 1984 was $27.3 million, a $44.8 million increase over the loss in fiscal 1983 of $17.5 million. Fiscal 1984 net income improved $79.0 million over the $51.7 million loss in fiscal 1982. Financial performance during the past three years reflects substantial improvements in operating results, as well as the divestitures of certain businesses and assets of the company. In addition, net income in fiscal 1984 reflects the benefit of an extraordinary credit of $8.6 million resulting from the realization of net operating loss carryforwards which existed at June 30, 1983.

Fiscal 1984 operating income of $1.6 million was an improvement of $16.3 million over the fiscal 1983 loss of $14.7 million and an improvement of $19.8 million over the fiscal 1982 loss of $18.2 million. The improvement in operating income over the past three years was attributable to several factors, including: cost reduction programs, programs to improve and streamline operating and administrative functions, an improved marketing focus and the launch of the video business. Cost reduction programs have substantially reduced the company's overall break-even point and allowed the company to reestablish a profitable performance in spite of lower revenues in most segments.

Nonoperating income, consisting principally of interest income and expense and the gain on the sale of certain assets, contributed earnings before taxes of $8.1 million in fiscal 1984. Net interest income of $3.8 million in fiscal 1984 compared favorably to $3.6 million in fiscal 1983. In addition, a gain of $4.5 million was recognized in fiscal 1984 on the sale of the company's interest in the partnership owning the Playboy Building in Los Angeles and its interest in the adjacent land.

Discontinued operations generated income in fiscal 1984 of $12.4 million. This resulted from the sale of the company's interest in the Playboy Hotel/Casino in Atlantic City and a reduction in the loss reserves related to the disposal of the company's book publishing business and the closing of its Bahamian casino. Losses from discontinued operations in fiscal 1983 and 1982 resulted from the company's decisions to discontinue its resort hotel and book publishing businesses and to sell its United Kingdom and Atlantic City casino interests rather than further appeal unfavorable regulatory rulings.

Publishing: Fiscal 1984 revenues of the publishing segment of $147.1 million declined by $3.1 million or 2.1 percent compared to fiscal 1983. Fiscal 1983 revenues of the publishing segment of $150.2 million were below fiscal 1982 by 9.2 percent.

Fiscal 1984 revenues of PLAYBOY magazine of $120.1 million decreased by $1.9 million or 1.6 percent compared to fiscal 1983. The decline in fiscal 1984 revenues was principally due to lower advertising revenues which was partially offset by increased circulation revenues. Fiscal 1983 revenues of PLAYBOY magazine of $122.0 million were down by 12.7 percent from fiscal 1982. The decline in fiscal 1983 revenues was attributable to both lower newsstand circulation and advertising revenues as a result of a decline in copies and pages sold. This decline in PLAYBOY's fiscal 1983 operating performance was attributable to the twofold revenue squeeze often felt by major consumer publications during a recession. The direct impact of the decline in consumer discretionary spending is felt at the newsstand as consumers redistribute their disposable income; the indirect impact is felt as advertisers attempt to reduce costs.

PLAYBOY magazine fiscal 1984 newsstand and subscription revenues increased by $3.7 million or 4.9 percent, principally due to price increases effective with the October 1982 issue. The increase in fiscal 1984 newsstand revenues of $1.8 million or 4.4 percent was partially attributable to the full-year impact of a $.50 cover price increase in October 1982. Also contributing to the increase in newsstand revenues were the strong sales of both the holiday (December) issue at a $3.50 cover price and of the 30th Anniversary (January) issue at a $4.00 cover price. The fiscal 1984 increase in subscription revenues of $1.9 million or 5.5 percent was due to the full-year impact of an increase in subscription prices.

PLAYBOY magazine fiscal 1984 advertising revenues decreased by $5.8 million or 12.5 percent. The decline in fiscal 1984 advertising revenues was attributable to a volume decline of 103.91 pages or 10 percent and a decline in rate per page of $3,339 or 7.2 percent. The decline in advertising rate per page was principally due to a reduction in PLAYBOY's circulation rate base from 4.4 million to 4.1 million during fiscal 1984. Since September 1983, the company's circulation rate base has remained stable at 4.1 million of which approximately 2.2 million were subscriptions.

Publishing segment fiscal 1984 earnings before taxes of $17.9 million improved by $11.4 million or 175.2 percent compared to fiscal 1983. Fiscal 1983 earnings before taxes of the publishing segment of $6.5 million were down by $5.4 million compared to fiscal 1982.

PLAYBOY magazine earnings before taxes were $15.6 million, an improvement of $7.7 million or 97.2 percent over fiscal 1983. While advertising revenue declined, newsstand and subscription revenues increased 4.9 percent. Additionally, there was an 8.6 percent reduction in cost of sales and operating expenses. Manufacturing and other direct costs associated with the production of the magazine were reduced in fiscal 1984 by $8.7 million or 10 percent, principally due to a reduction in paper and printing costs of $7.8 million. The principal factors contributing to these cost reductions were reductions in the print run of 4.6 percent and the average book size of 6.9 percent.

Also contributing to the improved results of the publishing segment were fiscal 1984 earnings before taxes related to the sale of PLAYBOY newsstand specials of $1.5 million, an increase of $1.2 million over fiscal 1983. This improvement was due to increased unit volume resulting from publishing two additional newsstand specials in fiscal 1984, as well as growth in unit volume of each special.

The publishing segment's fiscal 1983 earnings before taxes of $6.5 million were down by $5.4 million when compared to fiscal 1982 earnings. PLAYBOY magazine fiscal 1983 earnings before taxes declined by $8.7 million, excluding the effect of write-downs totaling $3.5 million of certain inventories in fiscal 1982. The primary factor contributing to the earnings decline of PLAYBOY magazine in fiscal 1983 was the revenue decline previously discussed. The effect of the decline in PLAYBOY magazine revenues in fiscal 1983 was partially offset by a $7.9 million reduction in manufacturing costs, which principally resulted from reductions in the print run of 3.0 percent and the average book size of 10.3 percent.

Video: Fiscal 1984 revenues of the video segment were $19.2 million, an increase of 55 percent over fiscal 1983.

Contributing to the growth in the video segment during fiscal 1984 was the full-year impact of the operation of The Playboy Channel. Revenues of The Playboy Channel increased $7.3 million in fiscal 1984 to $15.6 million. The number of subscribing households have increased from approximately 300,000 at the date the Channel was launched (November 1982) to nearly 720,000 at fiscal year-end. This growth in subscribers to the Channel was the result of both the addition of new cable systems and increases in subscribers on new and existing cable systems. In addition to its use on The Playboy Channel, programming is repackaged for sale through a variety of licensing arrangements in the form of videocassettes and videodiscs, over-the-air subscription

television and other pay television. Revenues from these sources in fiscal 1984 of $3.4 million remained level with fiscal 1983.

The video segment was profitable in the third and fourth quarters of fiscal 1984; however, these profits were not sufficient to offset first half losses. The video segment full-year loss in fiscal 1984 was $0.3 million, a $2 million improvement over fiscal 1983. This improvement in results was principally attributable to increased Playboy Channel subscription revenues previously discussed.

Clubs: Fiscal 1984 revenues of the club segment of $12.9 million declined $6.9 million or 34.7 percent from fiscal 1983. This decline was principally due to decreases in company-owned club revenues and key sales of $4 million and $2.5 million, respectively.

The majority of the decrease in company-owned club revenues was attributable to the closing in August 1983 of the New York and Cincinnati clubs. In fiscal 1984, the company opened another in-hotel franchised club in Omaha, entered into a contract with Lettuce Entertain You to provide management expertise to the club division and continued development of its plans to improve and update the Playboy Club product. The New York Club, scheduled to reopen in a hotel in early 1985, is currently being designed under a new concept and will serve as a prototype for company-owned and franchised clubs.

Revenues from the sale of Playboy Club keys were below last year, reflecting a 23.2 percent decline in unit volume. This decline in unit volume was partially due to the New York club closure which has resulted in the suspension, until the club reopens, of member solicitation in the New York metropolitan area.

The fiscal 1984 operating loss of the club segment was $2.9 million compared to $2.5 million in fiscal 1983. The club segment fiscal 1984 losses were attributable to lower revenues, as previously discussed, and certain one-time costs incurred during the development of the new concept New York Playboy Club. Contributing positively to the results of the club segment over the past three years were the effects of various cost reduction programs. These programs included reductions in staff, discretionary promotional expenses and other controllable operating expenses. In late fiscal 1984, these programs continued with further streamlining of the administrative staff consistent with the change in the direction of the club segment's operations toward franchising.

The fiscal 1983 revenues of the club segment decreased $5.5 million or 21.6 percent from fiscal 1982. The primary factor contributing to this revenue decline was lower door count which was attributable in part to the effect of poor economic conditions on consumer discretionary spending. The fiscal 1983 loss of the club segment increased by $1.3 million (as recalculated without a $1.5 million write-off of notes and accounts receivable from two of the club franchises recorded in fiscal 1982) compared to fiscal 1982. This increased loss was principally due to lower revenues, partially offset by lower operating costs discussed previously.

Products: Fiscal 1984 revenues of the products segment were $7 million, an increase of $0.5 million or 8.1 percent over fiscal 1983. Earnings before taxes of $3.8 million showed an improvement of $0.9 million or 31.5 percent over fiscal 1983. Contributing to the improved performance of the segment were a number of factors, including: a refocusing of the segment's merchandising efforts to target a slightly younger market, a broadening of distribution patterns by selling through mass merchandisers, an improvement in marketing programs and an emphasis on a direct marketing approach.

Product licensing fiscal 1984 revenues of $4.6 million increased by $1.1 million or 32.6 percent over fiscal 1983. Product licensing fiscal 1984 earnings before taxes of $4.1 million improved by $1.0 million or 31.1 percent over fiscal 1983. The majority of this improvement in earnings was due to growth in royalty income generated from increased unit volume of individual domestic licensees, as well as the addition of new licensees. Leading the growth in domestic licensing in fiscal 1984 was the women's apparel segment, which experienced substantial growth in royalties from existing licensees, as well as the addition of four new licensees.

Fiscal 1983 revenues declined by $0.6 million or 8.9 percent compared to fiscal 1982, while earnings before taxes decreased $0.4 million or 11.6 percent. The decrease in fiscal 1983 revenues and earnings was attributable to lower volume principally in the wholesale operations as a result of the weak domestic economy and sluggish consumer demand.

Corporate Administration and Promotion: Corporate administration and promotion expenses of $16.6 million in fiscal 1984 were 8.9 percent lower than fiscal 1983 and 30.1 percent lower than fiscal 1982. The reductions reflect the results of ongoing cost control and restructuring programs.

Net Interest: Over the past three years, net interest income has increased from a net expense of $3,000 in fiscal 1982 to net interest income of $3.8 million in fiscal 1984. This increase essentially reflects the improvement in the company's liquidity position as a result of the divestiture of the company's gaming, resort hotel and book publishing businesses and the sales of certain other assets.

Liquidity/Capital Resources

The company remained financially strong in fiscal 1984 with its cash needs financed by internally generated funds. The company's liquidity position was strengthened in fiscal 1984 as a result of cash generated from operations and the sales of certain other assets. The success of the company's ongoing cost control programs and restructuring efforts resulted in the reduction of administrative expense and the conversion of certain nonproductive assets into cash.

Cash and short-term investments increased by $20.1 million, of which $5.4 million was contributed by the operations of the company's continuing businesses. Net proceeds on the sale of the company's interest in certain real estate investments generated $10.1 million in cash. In addition, the sale of the company's interest in an Atlantic City Hotel/Casino generated cash of $7.6 million from the first installment on that sale.

At the close of the fiscal year, the company had only one significant long-term financing obligation, a deferred distribution fee of $5 million payable in 1989 to its cable television programming distributor.

With the achievement of a positive cash flow from operations in fiscal 1984 and the company's significant cash reserves, the company is in a position to employ these funds in developing its ongoing businesses while exploring opportunities for expansion. The process of investing in the future began in fiscal 1983 with the redirection of the company's efforts in the video segment and the launch of The Playboy Channel. The process continued in fiscal 1984 with significant additions to the video segment programming inventory funded principally by its operations. Management expects an increased level of spending in fiscal 1985 which it anticipates funding principally through the operations of the video segment.

Management believes it has made significant progress in strengthening the financial position of the company in fiscal 1984. The results it has achieved to date, if coupled with growth in the businesses it has chosen to emphasize, should enable the company to continue to meet its cash needs primarily through internally generated funds.

Consolidated Statements of Operations

for the years ended June 30

(in thousands except per share amounts)	1984	1983	1982
Net sales and revenues from continuing operations	$187,144	$193,672	$210,093
Costs and expenses:			
Cost of sales and operating expenses	(156,588)	(179,867)	(194,561)
Selling and administrative expenses	(28,932)	(28,552)	(33,747)
Total costs and expenses	(185,520)	(208,419)	(228,308)
Operating income (loss)	1,624	(14,747)	(18,215)
Nonoperating income (expense):			
Interest income	4,506	4,313	3,989
Interest expense	(741)	(743)	(3,992)
Other, net (Note I)	4,301	(47)	3,741
Income (loss) from continuing operations before income taxes and extraordinary item	9,690	(11,224)	(14,477)
Income tax expense (Note G)	(3,392)	(963)	(1,713)
Income (loss) from continuing operations before extraordinary item	6,298	(12,187)	(16,190)
Discontinued operations (Note B):			
Loss from operations	—	—	(21,006)
Gain (loss) on disposal	12,433	(5,306)	(14,485)
Income (loss) from discontinued operations before extraordinary item	12,433	(5,306)	(35,491)
Income (loss) before extraordinary item	18,731	(17,493)	(51,681)
Extraordinary item—tax benefit resulting from utilization of loss carryforwards (Note G)	8,605	—	—
Net income (loss)	$ 27,336	$ (17,493)	$ (51,681)
Income (loss) per common share (Note A):			
Income (loss) before extraordinary item:			
From continuing operations	$ .64	$ (1.23)	$ (1.64)
From discontinued operations	1.25	(.54)	(3.59)
Total	1.89	(1.77)	(5.23)
Extraordinary item applicable to:			
Continuing operations	.34	—	—
Discontinued operations	.53	—	—
Total	.87	—	—
Net income (loss)	$ 2.76	$ (1.77)	$ (5.23)

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Financial Position

as of June 30

(in thousands)	1984	1983*
Assets		
Cash and short-term investments (Note A)	$ 46,711	$ 26,580
Receivables, less allowances of $2,471,000 and $2,891,000 in 1984 and 1983, respectively	12,467	14,594
Inventories (Note D)	12,962	12,702
Film production costs (Notes A and E)	11,680	7,567
Cash in escrow and receivables from sale of discontinued businesses (Notes B and C)	8,314	2,077
Other current assets	4,574	3,848
Total current assets	96,708	67,368
Property and equipment (Note A):		
Land	814	2,174
Buildings and improvements	13,665	12,940
Furniture and equipment	14,607	16,284
Leasehold improvements	10,491	11,367
Capitalized leases (Note J)	694	461
Total property and equipment	40,271	43,226
Less: Accumulated depreciation and amortization	(24,417)	(24,314)
Property and equipment, net	15,854	18,912
Receivables from sale of Atlantic City Venture (Note C)	36,588	—
Deferred subscription acquisition costs (Note A)	9,247	7,252
Film production costs—noncurrent (Notes A and E)	2,999	4,038
Net noncurrent assets of discontinued businesses (Note B)	—	33,641
Other assets	8,035	6,354
Total assets	$169,431	$137,565
Liabilities		
Current financing obligations (Note F)	$ 160	$ 647
Accounts payable	17,403	17,894
Accrued salaries, wages and employee benefits	3,133	4,126
Net liabilities of and reserves for losses on disposal of discontinued businesses (Note B)	1,039	5,340
Income taxes payable	7,200	8,196
Other liabilities and accrued expenses	6,163	5,405
Total current liabilities	35,098	41,608
Long-term financing obligations (Notes F and L)	3,484	152
Deferred revenue (Note A)	41,520	36,730
Deferred gain on sale of partnership interest (Note I)	3,390	—
Other noncurrent liabilities	3,817	4,505
Commitments and contingencies (Notes B, E, J and K)		
Shareholders' Equity		
Common stock, $1 par value, 15,000,000 shares authorized, 10,099,509 issued (Note H)	10,100	10,100
Capital in excess of par value	14,903	14,854
Retained earnings	58,356	31,020
Less cost of 177,863 and 201,803 shares in treasury at June 30, 1984 and 1983, respectively (Note O)	(1,237)	(1,404)
Total shareholders' equity	82,122	54,570
Total liabilities and shareholders' equity	$169,431	$137,565

*Certain reclassifications have been made to conform to the 1984 presentation.
The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Changes in Shareholders' Equity
for the years ended June 30, 1984, 1983 and 1982

(in thousands)	Common Stock	Capital in Excess of Par Value	Retained Earnings	Treasury Stock
Balance at June 30, 1981	$ 10,064	$ 14,616	$101,379	$ (1,403)
Net loss	—	—	(51,681)	—
Dividends ($.12 per share)	—	—	(1,185)	—
Exercise of stock options	24	164	—	(1)
Balance at June 30, 1982	10,088	14,780	48,513	(1,404)
Net loss	—	—	(17,493)	—
Exercise of stock options	12	74	—	—
Balance at June 30, 1983	10,100	14,854	31,020	(1,404)
Net income	—	—	27,336	—
Issuance of 23,940 common shares to employees as stock bonus	—	49	—	167
Balance at June 30, 1984	$ 10,100	$ 14,903	$ 58,356	$ (1,237)

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Changes in Financial Position

for the years ended June 30

(in thousands)	1984	1983*	1982*
Cash Flow from Continuing Operations			
Income (loss) from continuing operations before extraordinary item	$ 6,298	$ (12,187)	$ (16,190)
Add (deduct) items not affecting cash:			
Depreciation of property and equipment	2,394	2,776	3,165
Amortization and market value adjustment of film production costs	12,624	8,930	359
Gain on sale of properties	(4,489)	(1,001)	(5,388)
Other	471	768	—
Additions to film production costs	(15,698)	(19,349)	(825)
(Increase) decrease in other working capital items	(2,118)	(1,508)	16,829
Increase (decrease) in deferred income, net of deferred subscription acquisition costs	2,468	1,425	(2,038)
Decrease in noncurrent liabilities	(361)	(1,713)	(441)
Other, net	423	222	197
Cash provided by (used for) continuing operations before extraordinary item and other sources of cash	2,012	(21,637)	(4,332)
Extraordinary item—tax benefit, not affecting cash	3,351	—	—
Other sources (uses) of cash:			
Additions to property and equipment	(1,499)	(1,992)	(2,145)
Sales of property and equipment	10,861	2,805	8,791
Payment of cash dividend	—	(593)	(592)
Other, net	—	—	(762)
Cash provided by (used for) continuing operations before financing activities	14,725	(21,417)	960
Cash Flow from Discontinued Operations			
Income (loss) from discontinued operations before extraordinary item	12,433	(5,306)	(35,491)
Extraordinary item—tax benefit, not affecting cash	5,254	—	—
Net proceeds from sale of discontinued businesses	7,145	15,351	46,716
Net (increase) decrease in net assets of discontinued operations	(19,036)	1,819	36,257
Cash provided by discontinued operations	5,796	11,864	47,482
Financing			
Additions to (retirement of) financing obligations	(390)	35	(27,834)
Issuance of common stock	—	86	187
Cash provided by (used for) financing	(390)	121	(27,647)
Increase (Decrease) in Cash and Short-Term Investments	$ 20,131	$ (9,432)	$ 20,795

*Certain reclassifications have been made to conform to the 1984 presentation.
The accompanying notes are an integral part of the financial statements.

Notes to Consolidated Financial Statements
(For the three years ended June 30, 1984)

(A) Summary of Significant Accounting Policies

Principles of Consolidation: The consolidated financial statements include the accounts of the company and all subsidiaries. The net current and noncurrent assets and liabilities, results of operations and gain or loss on disposal related to the discontinued gaming, resort hotel and book publishing businesses are presented separately in the financial statements. (See Note B.)

Revenue Recognition: Revenues from the sale of magazine subscriptions and cable television subscriptions (net of distribution fees) are recognized over the terms of the subscriptions. Sales of magazines (net of estimated returns) are recorded when each issue goes on sale. Revenues from the sale or renewal of Playboy Club keys, net of a provision for uncollectible amounts, are recognized as of the effective date of the keyholder period. Revenues from pay television and videocassette license agreements are recognized when the films are contractually available to the licensee and certain other conditions are met.

Short-Term Investments: Short-term investments are stated at cost which approximates market value.

Inventories: Inventories are stated at the lower of cost (first-in, first-out) or market.

Property and Equipment: Property and equipment are stated at cost. Depreciation is provided on the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized on a straight-line basis over the shorter of their estimated useful lives or the term of the related leases. Repair and maintenance costs are expensed as incurred and major renewals and betterments are capitalized.

Deferred Subscription Acquisition Costs: Costs associated with the promotion of magazine subscriptions are amortized over the terms of related subscriptions.

Film Production Costs and Amortization: Film production and acquisition costs are capitalized and amortized principally on the straight-line method over two years. Management believes that this method provides a reasonable matching of expense with total estimated revenues over the periods that revenues associated with films are recognized. Film amortization is adjusted periodically to reflect changes in the estimate of timing and amounts of related future revenues. Film costs are stated at the lower of unamortized cost or estimated net realizable value as determined on a film-by-film basis.

Investment Tax Credits: Investment tax credits are recognized as a reduction of the provision for income taxes in the year available for use, subject to statutory limitations.

Earnings per Common Share: Earnings per common share were computed on the basis of the weighted average number of shares outstanding during each period.

(B) Discontinued Operations

During fiscal 1982, the company discontinued its resort hotel, book publishing and gaming operations.

Results of operations of the discontinued businesses have been segregated from the results of continuing operations in the Consolidated Statements of Operations and were as follows at June 30 (in thousands):

	1982
Resort hotels (including income tax benefits of $265)	$ 569
Book publishing	(6,045)
Gaming (including income tax expense of $4,256)	(15,530)
Total	$(21,006)

The gain (loss) on disposal was as follows (in thousands):

	1984	1983	1982
Resort hotels (including income tax benefits of $94 in 1984 and $439 in 1982)	$ (119)	$ (2,108)	$ (3,521)
Book publishing (including income tax expense of $257 in 1984)	328	500	(7,456)
Gaming (including income tax expense of $5,129, $414 and $3,698, respectively)	12,224	(3,698)	(3,508)
Total	$ 12,433	$ (5,306)	$(14,485)

Resort Hotels: On March 24, 1982, pursuant to a plan of disposal adopted in November of 1981, the company sold its Lake Geneva (Wisconsin) and Great Gorge (New Jersey) resort properties for $42,000,000. The company received $32,000,000 in cash and a $10,000,000 promissory note.

In fiscal 1983, the company renegotiated the original terms of the sale agreement for the resort hotel properties. The renegotiated terms included a reduction of the promissory note in the amount of $1,369,000. The company received the remaining balance of the promissory note of $8,631,000 in fiscal 1983. The company also recorded an additional provision of $739,000 to reflect other aspects of the renegotiated agreement and to adjust estimates of certain liabilities associated with these operations.

Net revenues of the resort hotels were $18,444,000 in fiscal 1982 (through December 1981). The fiscal 1982 loss on disposal included an operating loss during the phase-out period (January-March 1982) of $647,000.

Book Publishing: On July 1, 1982, the company completed the sale of its book publishing operations for $3,437,000. The purchase price was received in installments through January 31, 1984. The company's book club business was phased out during fiscal 1983.

The $7,456,000 loss on disposal in fiscal 1982 included a provision to state certain assets at net realizable value, costs incident to the sale and $450,000 of estimated operating losses to be incurred during the phase-out period (July-September 1982).

In fiscal 1983, the estimated loss on disposal was reduced by $500,000 principally as a result of a reevaluation of the realizable value of certain assets.

The company is in the initial stages of negotiating the final settlement under the terms of the sales agreement. Based upon the proposed settlement and management's review of exposures related to

Notes to Consolidated Financial Statements (continued)

the final settlement, the estimated loss on disposal was reduced by $585,000 ($328,000 after tax) in fiscal 1984.

The book publishing operations reported net revenues of $16,918,000 in fiscal 1982.

Gaming: The company's discontinued operations in the gaming industry consist of its United Kingdom gaming businesses (casinos, betting shops and bingo parlors), its Bahamian casino and its interest in the Playboy Hotel/Casino in Atlantic City, New Jersey (Atlantic City Venture). In December of 1981, the company agreed to sell its United Kingdom operations as described below. In April 1982, the company was ordered to withdraw from operating the Atlantic City casino pursuant to a decision by the New Jersey Casino Control Commission. The company withdrew from operating the Bahamian casino in August 1983.

The sale of the company's United Kingdom operations was completed on January 8, 1982, for $24,800,000. Of the sales price, $6,461,000 was placed in a general escrow account to cover any liabilities that were unforeseen at the time of sale. An additional $1,661,000 of the sales price was placed in separate escrow accounts pending the resolution of certain contingent tax, severance and termination liabilities. In fiscal 1983, the company received approximately $6,100,000, including interest, from these escrow accounts. The remaining balance in the escrow accounts, after satisfaction of certain liabilities, was $129,000 including interest, at June 30, 1984. The company indemnified the purchaser against certain contingent liabilities which are not limited to the amounts placed in escrow but are limited to the total sales price. Management does not believe that any significant liabilities will result from this indemnification.

In April 1984, the company sold its 45.7 percent interest in the Playboy Hotel/Casino in Atlantic City, New Jersey, to its joint venture partner, Elsub Corporation, a wholly-owned subsidiary of Elsinore Corporation. The name of the Hotel/Casino was changed on June 5, 1984, at which time all rights by the Hotel/Casino to utilize the company's trade name and trademark ceased. The sales price was $58,517,000 and a gain after tax of $11,409,000 was recognized. At closing, the company received $7,564,000 in cash and a six-year promissory note in the amount of $45,384,000. Also included in the sales price were management fees totaling approximately $5,569,000 which are due no later than April 1990. (See Note C.)

Prior to April 1982, the company accounted for its investment in the Atlantic City Venture under the equity method of accounting. In April 1982, the New Jersey Casino Control Commission required that the company no longer participate in the management of the Hotel/Casino, and as a result, effective in April 1982, the company began accounting for its investment under the cost method. The company's investment at June 30, 1983 was $33,641,000.

The fiscal 1983 loss on disposal of the gaming segment reflects a net loss related to the company's Bahamian gaming business of $3,774,000. In fiscal 1984, the estimated loss on disposal of the Bahamian gaming business was reduced by $1,453,000 ($815,000 after tax) as a result of management's final determination regarding the method of disposition.

Net sales and revenues of $44,562,000 were generated by the gaming segment in fiscal 1982 (through the date of disposal).

(C) Receivables from Sale of Atlantic City Venture

The receivables from the sale of the Atlantic City Venture consisted of the following at June 30 (in thousands):

	1984
Note receivable, $45,384 face amount (less unamortized discount of $5,079)	$40,305
Management fee receivable, $5,569 face amount (less unamortized discount of $3,070)	2,499
Less current maturities, $7,564 face amount (less unamortized discount of $1,348)	(6,216)
Total receivables from sale of Atlantic City Venture	$36,588

The note bears interest at 10 percent per annum and is payable in six equal annual installments of principal plus interest commencing April 3, 1985. The payment of management fees will be made as such payments are made to Elsinore Corporation with final payment due not later than April 1990.

The receivables have been discounted to reflect an interest rate of 15 percent per annum which approximates current market conditions at the date of sale.

(D) Inventories

Inventories consisted of the following at June 30 (in thousands):

	1984	1983
Publishing Business:		
Paper	$ 8,297	$ 7,940
Editorial and other prepublication costs	3,236	3,385
Total publishing inventories	11,533	11,325
Merchandise finished goods	762	737
Other	667	640
Total inventories	$12,962	$12,702

(E) Film Production Costs

Current film production costs consisted of the following at June 30 (in thousands):

	1984	1983
Released, less amortization	$10,749	$ 7,109
Completed, not yet released	931	458
Total current film production costs	$11,680	$ 7,567

Noncurrent film production costs consist of films in the process of production.

In fiscal 1984 and 1983, the company reduced the carrying value of specific programs by $2,298,000 and $2,158,000, respectively, to reflect their estimated net realizable value.

The company's video operation had commitments to license, purchase or finance the production of films for use in its video business of approximately $4,650,000 at June 30, 1984. The company reserves the right of approval on the production of all films.

Notes to Consolidated Financial Statements (continued)

(F) Current and Long-Term Financing Obligations

Long-term financing obligations consisted of the following at June 30 (in thousands):

	1984	1983
Noninterest bearing note due January 1989, less unamortized discount of $1,766, based upon imputed interest rate of 11% (Note L)	$ 3,234	$ —
Capitalized lease obligations and other, at interest rates of 5.9% to 26.4%, averaging 13%, payable in various installments to November 1989	410	344
Total	3,644	344
Less current maturities	(160)	(192)
Total long-term financing obligations	$ 3,484	$ 152

At June 30, 1983, current financing obligations included current maturities of long-term financing obligations and a foreign bank overdraft of $455,000.

At June 30, 1984, the company had $12 million in short-term domestic bank lines of credit against which no borrowings were outstanding. The company maintains compensating balances of five percent of the total lines, plus zero or five percent of line usage. Compensating balances at June 30, 1984 and 1983 were $600,000 and $750,000, respectively, and withdrawal of these bank balances was not legally restricted. These compensating balance requirements are cancelable by either party.

(G) Income Taxes and Extraordinary Item

The provision for income taxes consisted of the following at June 30 (in thousands):

	1984	1983	1982
Current:			
Federal	$ 8,104	$ —	$ (2,246)
State	486	127	1,591
Foreign	94	1,250	7,300
Total current	8,684	1,377	6,645
Deferred:			
Federal	—	—	3,127
State	—	—	(615)
Foreign	—	—	(194)
Total deferred	—	—	2,318
Total tax provision	$ 8,684	$ 1,377	$ 8,963
Tax provision applicable to:			
Continuing operations	$ 3,392	$ 963	$ 1,713
Discontinued operations	5,292	414	7,250
Total	$ 8,684	$ 1,377	$ 8,963

In 1982 and 1983, the tax provision applicable to discontinued operations included $3,698,000 and $414,000, respectively, of United Kingdom capital gains tax on the sale of the company's United Kingdom operations as described in Note B. The 1984 tax provision applicable to discontinued operations was due principally to the computation of federal taxes at the capital gains rate on the company's disposition of its interest in an Atlantic City Hotel/Casino.

The extraordinary item of $8,605,000 resulted from the utilization of net operating loss carryforwards existing at June 30, 1983.

Income (loss) from continuing operations before income taxes consisted of the following at June 30 (in thousands):

	1984	1983	1982
Domestic	$ 9,690	$(12,539)	$(15,056)
Foreign	—	1,315	579
Total	$ 9,690	$(11,224)	$(14,477)

The provision for income taxes applicable to continuing operations differed from a provision computed at the United States statutory rates as follows at June 30 (in thousands):

	1984	1983	1982
Statutory rate tax provision	$ 4,457	$(5,163)	$(6,659)
Increase (reduction) in taxes resulting from:			
Foreign income taxed at other than U.S. statutory rate	94	231	478
Tax benefit of domestic losses not recognized	—	5,768	6,925
State income taxes	242	127	582
U.S. minimum tax	—	—	387
Gain on dispositions at capital gains rate	(874)	—	—
Adjustment of prior years estimated taxes	(500)	—	—
Other, net	(27)	—	—
Total	$ 3,392	$ 963	$ 1,713

At June 30, 1984, the company had net operating loss carryforwards of $8,100,000 for financial reporting purposes and $15,000,000 for tax purposes (expiring in 1998). The difference between financial reporting and tax amounts was due to items which were recognized in different periods for book and tax purposes. In addition, foreign tax credit carryforwards of $25,600,000 and investment tax credit carryforwards of $2,800,000 are available to reduce future U.S. federal income taxes. The foreign tax credit carryforwards expire in 1985 through 1989 with $5,484,000 expiring in 1986 and $19,000,000 expiring in 1987 and the investment tax credit carryforwards expire in 1992 through 1999.

The company's federal income tax returns for the years 1979 through 1981 are currently under examination by the Internal Revenue Service. In the opinion of management, the effects of any assessments arising from examination of these years will not be material.

Notes to Consolidated Financial Statements (continued)

(H) Stock Options

A Qualified Stock Option Plan was adopted in 1974, providing for the granting to certain employees of the company and its subsidiaries options for up to 700,000 shares of common stock. Options were granted within the first five years of the Plan for a period not to exceed five years. The Plan provided that options granted be exercisable at not less than 100 percent of fair value at the date of grant and no earlier than three months thereafter. No charges to earnings were made in connection with this Plan. The Plan terminated in 1984 and no options were outstanding or reserved for future grant at June 30, 1983.

A Stock Option-Stock Appreciation Rights Plan was adopted in 1977 providing for the granting to key employees of the company and its subsidiaries options for up to 700,000 shares of common stock. Sixty percent of the optioned shares could be exercised in the form of stock option appreciation rights (SARs) at a price of $1.00 below the fair market value of the stock at the date of the grant. Options with the SAR feature were granted within the first five years of this Plan which permitted optionees to exercise options by surrendering shares of already owned common stock of the company in lieu of cash. Upon exercise of an SAR, the optionee was paid any excess of the fair market value of the company's stock at the date of the exercise over the option price in cash. The compensatory elements of the Plan were an $80,000 and $108,000 credit to earnings in fiscal 1983 and 1982, respectively. The Plan, which terminates in 1987, has effectively terminated since no options or SARs are outstanding or reserved for future grant at June 30, 1983.

Information for the year ended June 30, 1983, with respect to the plans is summarized in the table below:

	Stock Options		Stock Appreciation Rights	
	Shares	Price Per Share	Shares	Price Per Share
Outstanding at June 30, 1982	115,000	$6.13-$19.00	63,000	$6.50-$18.00
Exercised	(12,000)	6.13	(33,000)	6.50- 12.75
Expired or canceled	(103,000)	6.13- 19.00	(30,000)	6.50- 18.00
Outstanding at June 30, 1983	–		–	

No options were granted in 1983 or 1982.

(I) Other Items

In fiscal 1984, the company sold its 50 percent interest in a partnership which held the long-term ground lease to the Los Angeles office building housing the company's California offices. The transaction also included the sale of the parking lot property adjacent to the office building. Simultaneously, the company entered into a 10-year lease for the entire building. The company's partner in the partnership was the purchaser of both interests. These interests were sold for $10,750,000 in cash and resulted in a gain before income taxes of $8,270,000 of which $4,489,000 was recognized in fiscal 1984. The deferred gain on the sale of the partnership interest is being amortized on a straight-line basis over the 10-year term of the lease.

In fiscal 1983, the company sold an undeveloped parcel of land in Spain for $2,450,000, recognizing a gain of $1,001,000 before income taxes.

In fiscal 1982, the company sold for $10,800,000 and leased back for 14 months the building which housed the New York Playboy Club. As a result of this transaction, the company recognized a gain of $5,388,000.

(J) Lease Commitments

The company's principal lease commitments are for office space, data processing equipment and Playboy Club facilities. The leases generally provide for lessee payment of utility, insurance, tax and maintenance costs.

Rents payable under leases of certain Playboy Club facilities are based on a percentage of the revenues generated at the facility in addition to minimum base rentals.

Leased properties under capitalized leases were as follows at June 30 (in thousands):

	1984	1983
Buildings and improvements	$ –	$ 97
Furniture and equipment	694	364
Total	694	461
Less accumulated amortization	(279)	(252)
Net leased properties under capitalized leases	$ 415	$ 209

Rent expense for continuing operations was as follows at June 30 (in thousands):

	1984	1983	1982
Minimum rent expense	$ 5,082	$ 6,528	$ 6,472
Contingent rent expense	275	338	450
Total	5,357	6,866	6,922
Sublease income	(28)	(56)	(44)
Net rent expense	$ 5,329	$ 6,810	$ 6,878

The minimum commitment at June 30, 1984, under leases that have noncancelable terms in excess of one year was as follows (in thousands):

Year Ending June 30	Capitalized Leases	Operating Leases
1985	$ 187	$ 4,889
1986	149	4,385
1987	107	4,119
1988	–	4,007
1989	–	3,866
Later years	–	10,917
Less minimum sublease rental income	–	(812)
Net minimum lease payments	443	$ 31,371
Less amount representing interest	(75)	
Present value of minimum lease payments	368	
Less current portion	(97)	
Long-term obligations at June 30, 1984	$ 271	

Notes to Consolidated Financial Statements (continued)

(K) Contingencies

A class action suit was filed in 1981 alleging that certain directors of the company violated securities law by fraudulently omitting in the company's public disclosure the circumstances which led to the challenge of the company's United Kingdom gaming licenses. In fiscal 1984, an agreement was reached to settle the litigation. Under the agreement, the company will pay $1,350,000 which has been fully reserved.

In 1982, the company and certain of its officers and directors were served with complaints which alleged mismanagement regarding the actions which led to the challenge of the company's United Kingdom gaming licenses, the sale of its London casinos, and the actions which led to the decision concerning the company's Atlantic City gaming license. In July 1984, the company offered to purchase 500,000 shares, and, at the election of the company, up to 250,000 additional shares of its common stock at a cash price of $11.75 net per share. The offer was not extended to stockholders who are currently officers or directors of the company or to former directors of the company who were named as defendants in the actions. The company ultimately purchased 515,961 shares under this agreement and paid the plaintiffs' legal fees and costs of approximately $370,000. On August 1, 1984, the plaintiffs and defendants received final court approval of a stipulation and agreement of compromise and settlement and the suits were dismissed. (See Note O.)

The company is party to a lawsuit filed in 1983 by Secuenta Productions, Inc., claiming damages of $3,500,000 related to video programming of alleged insufficient quality. The suit was dismissed in favor of the company in May 1984, but Secuenta is appealing the dismissal. The company has filed a countersuit against Secuenta and another company which is expected to become the principal vehicle for litigation of the above claim. Management does not believe the outcome will have a material adverse effect on the company's financial position.

On July 16, 1984, a Statement of Claim was filed against the company in London alleging the company and/or one or more of its subsidiaries breached a contract under which the plaintiff was licensed to distribute videocassettes and videodiscs of certain television programming produced for The Playboy Channel. The claim also alleges certain misrepresentations by the company in negotiating the contract. While the damages sought are not specified, the claim alleges that had the contract been properly completed, the plaintiff would have earned profits in excess of $7,000,000. The company believes it has substantial defenses to this claim, and intends to vigorously defend in this action.

The company has sold with full recourse approximately $10,200,000 of receivables arising from sales of time-sharing intervals in its former resort hotels. The sales agreement requires the repurchase of any receivables that become more than 120 days delinquent. At June 30, 1984, the outstanding principal balance of the sold receivables less allowances provided was $799,000.

(L) Cable Television

On October 20, 1983, the company and Rainbow Programming Services Company ("Rainbow") signed an agreement recognizing the company as sole owner of The Playboy Channel, an adult-oriented pay-television programming service. This agreement appointed Rainbow the distributor of the Channel for cable television in the United States, Puerto Rico and Canada, subject to Rainbow's ability to meet certain cable television subscriber and gross revenue goals at periodic intervals over the term. Under the agreement, Rainbow will receive distribution fees plus a one-time payment of $5,000,000 in 1989. In addition, the company may be required to make a payment equivalent to 10 percent interest compounded annually on the $5,000,000 from October 20, 1983 to January 1, 1989 to Rainbow if certain subscriber or other goals are met by Rainbow when the $5,000,000 is due. (See Note F.)

(M) Segment Information

The company operates in four industry segments: the publishing segment, the video segment, the clubs segment and the products segment. Financial information relating to industry segments for fiscal 1984, 1983 and 1982 is presented in a table on page 27.

(N) Related Party Transactions

In August of 1982, the company appointed Paul Klein ("Klein") senior vice president and president of the company's video division. Klein is also the president of, and a major stockholder in a closely held corporation known as PKO Television, Ltd. ("PKO"). In August of 1982, the company agreed to pay PKO to produce twelve television programs. As of June 30, 1984, PKO had delivered seven programs for use by the company pursuant to these arrangements, and three more of the twelve programs had been planned (but were not and will not be produced). PKO had received approximately $2,284,500 from the company in gross payments for the production of those programs and overhead advances. As of July 1, 1984, Klein and PKO were no longer serving the company and the company, Klein and PKO are negotiating final settlement of amounts contractually due to and from each respective party.

As of December 1, 1983, Stephen H. Silverstein, the company's senior vice president and chief financial officer, resigned as an employee but was appointed, on a nonexclusive basis, as a financial consultant through June 30, 1984, in which position he retained the duties and responsibilities of his former position. During this period, Mr. Silverstein was paid $100,962 (which amount was equivalent to his regular salary for that period) and was accorded substantially the same expense reimbursement and fringe benefits, including life and health insurance and an automobile rental allowance, as were available to the company's other senior executives. Also as of December 1, 1983, the company entered into an agreement with Robinwood Group, Inc. ("RGI"), an investment management and consulting company wholly-owned and controlled by Mr. Silverstein, to provide certain investment and marketing services to the company through December 31, 1984 in regard to the sale of specific real estate parcels or investments owned by the company. In consideration, the company paid RGI $100,000 on March 1, 1984, and agreed to pay RGI

Notes to Consolidated Financial Statements (continued)

a commission of between two and five percent of the sales price it received from binding sales agreements entered into on or before December 31, 1984. As of June 30, 1984, RGI has received $215,000 in commissions and sales contracts have been signed which may result in RGI's receipt of as much as an additional $195,000. Additionally, the company reimburses RGI for business expenses incurred by Mr. Silverstein on the company's behalf between June 30, 1984, and December 31, 1984, the cost to RGI of providing life and health insurance for Mr. Silverstein and the cost of an automobile allowance during that period.

Until April of 1984, the company held a 45.7 percent interest in a venture which owned and operated the Playboy Hotel/Casino in Atlantic City, New Jersey (the "Venture"). Mr. Melvyn Klein, a director of the company, received $50,000 for services rendered as a member of the Venture's Executive Committee during fiscal 1984. Also during fiscal 1984, Mr. Klein was paid $350,000 by the company for services performed in fiscal 1983 and 1984 in connection with the sale of the company's interest in the Venture to Elsinore Corporation, including aiding management in the improvement of certain terms of that sale. Mr. Klein also has an arrangement with Donaldson, Lufkin & Jenrette, Inc. ("DLJ"), an investment banking firm which from time to time renders financial services to the company, whereby he receives from DLJ 20 percent of the fees paid to DLJ by the company. During fiscal 1984, the company engaged DLJ's services in regard to the divestiture of its ownership interest in the Venture and, in fiscal 1985, DLJ was hired as a Dealer Manager in regard to the tender offer for shares described in Note O. Through June 30, 1984, DLJ was paid $318,684 in connection with the sale of the company's interest in the Venture and will be paid approximately $125,000 in fiscal 1985 in regard to the tender offer.

(O) Subsequent Event

The company commenced a tender offer on July 3, 1984, to purchase up to 500,000 shares of its Common Stock, $1.00 par value, at $11.75 per share. Under the terms of the offer, the company had the option to elect to purchase up to 250,000 additional shares. The offer expired on August 1, 1984, and the company purchased 515,961 shares tendered pursuant to the offer. (See Note K.)

On a pro forma basis, if the 515,961 shares had been purchased at the beginning of fiscal 1984, the effect would have been a reduction of income from continuing operations of $585,000 ($.01 per common share) for the year ended June 30, 1984. The average number of common shares outstanding on a pro forma basis would have been 9,393,519 shares. The effect on the balance sheet would have been to reduce cash and short-term investments and shareholders' equity by $7,035,000 at June 30, 1984. The pro forma information assumes that the purchase price, plus fees, of $6,450,000 reduced cash which would have been invested in short-term money market investments at an assumed interest rate of 9 percent per annum.

Report of Independent Accountants

To the Shareholders and Board of Directors
Playboy Enterprises, Inc.

In our opinion, the accompanying consolidated statements of financial position and the related consolidated statements of operations, changes in shareholders' equity and changes in financial position present fairly the financial position of Playboy Enterprises, Inc., and its Subsidiaries at June 30, 1984 and 1983 and the results of their operations and the changes in their financial position for each of the three years in the period ended June 30, 1984, in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Price Waterhouse

Chicago, Illinois
August 13, 1984

Officers and Directors

Corporate Officers

Hugh M. Hefner	Chairman and Chief Executive Officer
Christie Hefner	President and Chief Operating Officer
Richard S. Rosenzweig	Executive Vice President, Office of the Chairman
Nat Lehrman	Senior Vice President; President, Publishing Division
John F. Phillips	Senior Vice President, Chief Financial and Administrative Officer
Howard Shapiro	Senior Vice President, General Counsel
Don L. Hubbard	Vice President, Administration and Security
James P. Radtke	Vice President, Internal Audit
Dale C. Gordon	Associate General Counsel and Secretary
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Stephen Spathelf	Treasurer

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Arthur Kretchmer	Senior Vice President, Editorial Director, PLAYBOY
Richard E. Smith	Senior Vice President, Circulation Director
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Jack Bernstein	Vice President, Circulation Promotion Director
Gerald Calabrese	Vice President and Publisher, GAMES
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Tom Staebler	Vice President, Executive Art Director, PLAYBOY
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David Lewine	Senior Vice President, Director, Home Video/Pay TV
Richard V. Sowa	Senior Vice President, Finance, Administration and Business Affairs
Sid Kalcheim	Vice President, Business Affairs

Clubs

John J. Casey	Vice President, Customer Service
Robert Howards	Vice President, Advertising and Promotion

Products

A. William Stokkan	Senior Vice President, Director

Models

Valerie Cragin	Vice President, Director, Playmate Promotions and Playboy Models

Playboy Foundation

Cleo Wilson	Executive Director
Burton Joseph	Chair, Board of Directors
Margaret Standish	Vice Chair, Board of Directors
Christie Hefner	Director
Nat Lehrman	Director
Susan Margolis-Winter	Director
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Howard Shapiro	Director

Directors

Hugh M. Hefner	Chairman of the Board and Chief Executive Officer, Playboy Enterprises, Inc.
Christie Hefner	President and Chief Operating Officer, Playboy Enterprises, Inc.
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Marvin L. Huston	Chairman, Grifton, Inc.
Melvyn N. Klein	Attorney; President, Melvyn N. Klein, P.C.

Stock Listings
Playboy Enterprises, Inc., common stock is listed on the New York Stock Exchange and the Pacific Stock Exchange.
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